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NATIONAL ECONOMIC POLICY

PROBLEMS CONNECTED WITH SOCIALIST OWNERSHIP REQUIRE FURTHER STUDY

Beijing JINGJI YANJIU in Chinese No 1, 20 Jan 79 pp 21-28

[Article by Dong Fureng [5516 6534 4356]: "On the Form of Socialist Ownership in Our Country"]

[Text] Ownership of the means of production is a crucial and complicated problem in political economy. In the past, our views of the socialist system of ownership were generally sound in most cases, although a few tended to be somewhat rigid and simplistic, making no allowance for expandable interpretations.

They are rigid because they relate the socialist system of ownership of the means of production to only one aspect rather than to the totality of production relations. The ownership of the means of production, no doubt, is an integral part of production relations and may be studied separately. But we must not lose sight of the fact that every aspect of production relations is an inseparable part of ownership. For instance, the distribution of products is the realization of ownership. Marx, who believed ownership embraces the totality of social relations of production, pointed out: "To define the capitalist right of ownership is to describe the total social relations of the capitalist system of production."¹ He also criticized Proudhon, who treated ownership as an independent relationship by itself.² This rigid view narrows ownership down to the simple question of who owns the means of production, and does not consider such questions as possession, allocation, and utilization of the means of production. This rigid interpretation is in fact an obstacle to our study of all other aspects of the socialist system of ownership.

If we do not study who possesses, allocates, and uses the means of production, and do not study the problem of ownership in the light of all the ramifications of production relations, we would not be able even to answer questions arising out of everyday life. For example, in an economy based on ownership by the whole people, why should an enterprise enjoy independence under unified leadership? Why should an enterprise be allowed to set aside a part of its profit as a sinking fund? Why should we permit the income of staff and workers of all enterprises owned by the whole people to differ from

enterprise to enterprise, according to the degree of success of each particular one? Why should an enterprise pay for the production capital it uses? Why should enterprises be permitted to act as independent entities and enter into economic contracts between each other or with the state? Why should an enterprise have strict independent economic accounting and bear economic responsibilities?

They are simplistic because they consider the solution of such problems as seizure of the means of production owned by the capitalists, collectivization of the individual economy, and establishment of socialist ownership by the whole people and collective ownership--all of which are tied to the solution of the problem of ownership of the means of production--as the final solution of the problem of ownership. In reality, even though these are decisive steps leading to the solution of the problem of ownership, there are still numerous other problems of socialist ownership awaiting solution, and there are bound to be new problems.

For instance, we are now confronted with the following problems. No enterprise has authority over independent operations and management; no enterprise has its own economic interests; primary producers have no rights over the production, distribution, and exchange of their products; the autonomy of the production teams has been encroached upon; the means of production, capital, and labor have been used free of charge; and there are cadres who exercise patriarchal control. All these problems must be grasped and studied in connection with ownership. If they were treated as problems of the method of management (popularly known as administrative method versus economic method), it would be impossible to get at the substance of these problems. In order to substantiate their allegations that our system of ownership of the means of production is that of the capitalist-roaders and capitalists within the party, the "gang of four" claim that the problem of our system of ownership "has not been resolved." That is ridiculous. However, we cannot say that our socialist system of ownership is perfect and does not require further study.

They have not made allowances for expandable interpretations, because they think the socialist system of ownership by the whole people, once established, would be an enduring and perfect form of ownership not likely to be affected by the passage of time or by changes brought about by the growth of productivity. They also believe collective ownership in the villages would also be healthy and sound, following the establishment of the people's communes based on "unity of government and commune," except for the problem of the transition of accounting authority from the production team to the production brigade, and perhaps to the commune as an accounting unit. Actually this is not true. If we do not look at the problem rigidly and simplistically and do not treat it as an immutable phenomenon, we see the problems besetting our system of ownership by the whole people and the system of collective ownership. Punctured by imperfections, they tend to constrain speedy

development of productivity, and should be modified. To act in compliance with objective economic laws in order to speed up the Four Modernizations, we have to work hard to find solutions to the problems affecting the socialist system of ownership.

There is no need at this point to cover any more ground other than to explore our socialist system of ownership by the whole people as expressed in the form of state ownership and the socialist system of collective ownership as expressed in the form of "unity of government and commune." In view of the complexity of the problem, the inquiry might not be entirely foolproof.

The Question of Ownership by the Whole People Expressed in Form of State Ownership

For a long time our economic theory has favored state ownership as the only expression of ownership by the whole people. The means of production owned by the whole people under socialism can be possessed on behalf of the working people only by a socialist state under a proletarian dictatorship. State enterprises led directly by the socialist state are managed by leaders of these enterprises appointed by the appropriate state organs, which also lay down plans of production for these enterprises. This concept of ownership by the whole people, regarded as immutable and impeccable, has persisted till today. Now we find it necessary to reassess this approach, because the system of ownership by the whole people expressed in the form of state ownership has given rise to a number of problems, as follows:

First, under the system of ownership by the whole people as expressed in state ownership, all economic organs are replaced by the administrative organs of the state, making all enterprises the subsidiaries of the state administrative departments at all levels or even making them grassroots government organs (such as the communes which are integrated with the government). Enterprises under the direct control of the central government are subordinate to the state government organs at the central level. Local enterprises are subordinate to state government organs at the local level. In expounding the necessity of state ownership, many books on political economy point out that the nature of the socialist system of ownership by the whole people dictates that no enterprise should enjoy independent authority over production, supply, marketing, manpower, finance, and material resources. Such authority must remain in the hands of the state. All the activities of an enterprise must be programmed and approved by its superior administrative organ. Otherwise, the system is no longer ownership by the whole people, or, as some of the books allege, "would be divided into local ownership, departmental ownership, ownership by enterprises, or collective capitalist ownership."³ Owing to this firmly rooted concept of state ownership, all efforts to reform the economic management during the past two decades were confined to the issue of centralization versus delegation of government authority, leaving practically untouched such questions as the form of state ownership

and the independence of enterprises under unified leadership. The subordinate alignments of enterprises have undergone numerous changes, but the issue has always been which level of government is above a particular enterprise. The procedures of centralized receipt and disbursement of funds and centralized purchase and marketing of products have remained intact. No enterprise can institute its independent system of economic accounting. Without the necessary managerial authority an enterprise naturally does not and cannot assume economic responsibilities. Business successes and failures, gains and losses, do not make any difference because they do not affect the interests either of the enterprise or of its staff and workers.

Second, under state ownership, economic organizations are replaced by state administrative organs which directly control all economic activities of an enterprise. Years of practice attest that this form of ownership leads to bureaucratism, commandism, blind commands, action "according to the wishes of the superior," and violation of objective economic laws.

Since the economic base and the superstructure are two different areas of human activities, each operates differently according to its unique objective rules. The national economy is a huge machine motivated by economic interests. The motive power of a capitalist economy is the pursuit of profit by the capitalists. The economic interests of a socialist economy are to satisfy the material and cultural needs of individual working people and society which push forward the operation of the socialist economy. The individual workers and production units, banded together by economic interests, engage in production to satisfy the needs of both individuals and society. The operation of this huge machine, the socialist national economy, depends on various economic mechanisms and levers--namely, value, price, commodities, currencies, markets, banks, credit, interest, budget, cost, profit, book-keeping, economic contracts, wage, bonuses, etc. These are the gears, links, and conveyer belts of this huge national economy machine. The requirements and functions of objective economic laws are realized and expressed through the movements of these economic mechanisms and levers, which indicate whether the economic activities of man are in keeping with the objective economic law. To manage an economy according to objective economic laws, it is best to base economic activities on man's concern for economic interests in order to bring into full play the motivating power of economic interests and make good use of the various economic mechanisms and levers. Consequently, every socialist economic organization must have its own economic interests and independent authority to use these mechanisms and levers to pursue its economic activities under a unified central leadership.

The state political power, a part of the superstructure, is also a huge machine. Its operations, characteristics and rules are different from those of the economic base. Not being an economic organization, and having no need for economic accounting, it does not have its own income to cover its expenditures or the economic responsibility for providing society with profit. Instead of operating by means of the aforesaid economic mechanisms and

levers, it depends on noneconomic measures such as official documents, commands, directives, regulations, and rulings. The requirements and functions of objective economic laws are not realized or expressed directly through these noneconomic mechanisms, which do not reflect the requirements and functions of objective economic laws; nor are they the vehicles to understand it.

Although these noneconomic mechanisms are often used in the management of the national economy, they are not indispensable and should not take the place of the economic mechanisms. When it is necessary to use them, we have to rely on the operation of the economic mechanisms to judge whether they reflect accurately the requirements of the objective economic laws. If we depend primarily and simplistically on these noneconomic mechanisms to run the national economy, we are likely to violate the objective economic laws, and it usually takes a long time and disastrous failures before these violations are detected. Ownership by the whole people through state ownership, in which the political power of the state decides and directs all economic activities, actually encourages indiscriminate use of noneconomic mechanisms to run the national economy. How can a state administrative organ, far removed from actual production, circulation, distribution, and exchange, be expected to avoid resorting to bureaucratism, commandism, and blind directions when it is put in charge of these economic activities? Comrade Hu Chi-mu has written an important article on this matter in which he listed some of the phenomena such as duplication of administrative agencies and jurisdictions, complicated procedures, paper pushing, a flood of documents, menacing meetings, inefficiency, stagnant economic turnovers, "acting according to the wishes of the superior," and reliance on instructions of the chieftains." These are not just problems of economic management (known as managing the economy by administrative methods) but also problems affecting the socialist system of ownership by the whole people through state ownership. Here are a few illustrations.

To complete the installation of a set of imported equipment, a certain factory had to place orders for additional parts abroad. The manifest it submitted for approval traveled from one government agency to another for 9 months, and 6 of the 9 months it spent in two agencies. The Huaguang Beer Plant of Shanghai once had a plan to improve its technology to boost production. Its proposal, approved by the Ministry of Light Industry and routed to other agencies, traveled more than 5 months from agency to agency before it finally reached the plant via the Municipal Bureau of Light Industry. A heavy machinery factory of Shenyang asked to build a dormitory. Its application form was studied by 11 government agencies, bearing 24 chop marks. These cases illustrate clearly that when the state administrative organs run the economy, every document has to go through as many checkpoints as there are government organs, let alone traffic jams and red lights. There is another chemical plant which imported advanced technological facilities to manufacture polyester fibers. The plant's old facilities

required three different steps to complete the manufacture of polyester fibers; condensation polymerization, crystallization, and reeling of fibers. The new facilities provide a continuous process from condensation, polymerization, to the reeling of fibers without interruption. However, the production of different products is controlled by different government departments, and so are the allocations of foreign exchange. Such being the case, the new polyester fiber equipment imported by this chemical plant just cannot be installed for continuous processing because fiber reeling comes under the jurisdiction of the Ministry of Textiles. This means that the chemical plant must cool the polymerized substance to make granules and turn them over to the textile authorities to melt them to make fibers. To comply with administrative compartmentation, the chemical plant must separate the fiber-reeling equipment from its imported facilities and install it as an independent unit for textile authorities. The advanced technology of continuous processing of polyester fibers had to be abandoned for jurisdictional reasons. We also know that, owing to different production procedures and different ministries in charge of different products, many kinds of raw materials have never been utilized comprehensively. Administrative divisions and compartmentation have also obstructed the rational circulation of commodities, resulting in roundabout shipments and irrational distribution. These are but a few of a long list of instances in which state ownership forces economic activities to conform to administrative division in violation of economic principles.

Third, under state ownership, every enterprise is managed by appointees of the state political authority. Exercising political authority within an enterprise, these appointees are responsible to a state political organ to which the enterprise belongs. They are not responsible to the enterprise or to its staff and workers. This often induces them to act on orders from a higher political authority without questioning whether such orders are sound economic rulings. As a matter of fact, they are bound to carry out such orders even if they are unsound. Business successes and failures of the enterprise do not affect their personal interests. As long as they carry out the orders of their superiors, they bear no economic responsibilities or sustain loss of personal income. The system of state ownership actually encourages the leaders of enterprises to resort to feudalist bureaucratic practices. Appointed by the state political authority, they can neither be removed nor supervised by the staff and workers of the enterprises, and they are usually imperious and extremely reckless.

Finally, to use the socialist system of ownership by the whole people as a vehicle to bring together the workers and the means of production, the workers should manage directly not only the means of production but also actual production, exchange, and distribution operations. To encourage the workers to manage well the means of production, they should be given an opportunity to feel concerned about the business of the enterprise they belong to as a matter of economic interest, making their personal interests merge with those of society and the enterprise. State ownership, however, keeps the workers

from the means of production. How can it be possible for the workers to play the role of masters in the management and use of the means of production when everything is decided by a higher administrative organ which is beyond the reach of the workers and does not have any direct personal interest in the success or failure of the enterprise?

The contradictions between state ownership and productivity began to surface in the 1950's, and Comrade Mao Zedong discussed the problem in his writings. For instance, in his writing "On Ten Major Relations," he discussed "the relations between the state, the production units, and the individual producers," and called for a change in the form of ownership by the whole people. At that time, the scope of production and construction was limited, and economic relations between the localities and the government organs were comparatively simple. The contradictions were not serious enough at that time to attract attention. As a result, Comrade Mao Zedong's astute observations were not appreciated and acted upon. Later, when productivity developed and production became highly socialized, the contradictions between the form of ownership and productivity were so acute that they began to choke the development of productivity. To speed up the Four Modernizations we must change the system of state ownership and replace it with a form of ownership of the whole people under socialism that is conducive to higher productivity. Such a new form of ownership will no doubt emerge out of practice.

Does a change in the socialist system of ownership by the whole people by means of state ownership alter the nature of ownership by the whole people? No. As a matter of fact, the change agrees more with the true nature of the system.

The means of production owned by all the workers as joint owners under the socialist system of ownership by the whole people should be used for the common interests of the workers. The socialist system of ownership by the whole people, founded on a broad base of socialized production, requires that management and control of the means of production be placed under a centralized unified leadership, with a unified plan to develop the national economy in accordance with the common interests of all the workers. Lenin said: "The inauguration of socialism means the establishment of a centralized economy, an economy under a unified central leadership."⁴ Moreover, the common interests of whole body of workers are inseparable from the interests of the individual workers. The former is the collective total of the latter. The means of production owned by the whole people are distributed to the production units for possession, allocation, and utilization. When the means of production and the workers are united under the ownership of the whole people, the workers in charge of management will use the means of production more effectively for the common interests of them all, because they themselves and the production units are concerned about their own interests. Consequently, the socialist system of ownership by the whole people favors more democracy for the production units, providing them with necessary power and

independence, recognizing their own interests and their right to be concerned about their interests, and giving their workers the right of management. Engels said that under a new social system, "all production units should be managed by the whole society. That is to say, they are to be managed according to a general plan by all the members of society for the common interests of all."⁵ Comrade Mao Zedong said: "Each production unit must enjoy a form of independence under unity in order to operate more energetically."⁶ They are right. Independence under unity in the management of the means of production does not affect ownership by the whole people, nor does it make the production unit the owner of the means of production which it can only possess, allocate, and use. Since each production unit enjoys independent management of the means of production under a unified plan, all surplus products belong to the whole body of workers, instead to the production unit, and should be distributed according to the common interests of them all. Thus, the socialist system of ownership by the whole people requires the combination of unity and independence in management. Judging from past experience, this is very difficult to achieve under the socialist system of ownership by the whole people through state ownership.

To achieve this objective, the state administrative organs and economic organizations must be kept separate. All economic activities should be left to economic organizations.⁷ All state administrative organs in charge of the economy must change into economic organizations controlled by strict economic accounting. While independent under unified leadership, all economic organizations and their activities must be placed under an independent accounting system controlled by the bank and a system of bookkeeping. They should have their own economic interests and bear economic responsibilities prescribed by law. Guided by a uniform plan, the workers of every production unit, which has the right to defend and promote the common interests of all its workers, should participate directly in its management for the sake of the interests of the unit as well as their own.

Should the state, under proletarian dictatorship, exercise any economic authority? Before the complete elimination of the state and the establishment of a social economic center, it still has its economic functions but cannot replace the economic organizations and directly command the economic activities of the production units. With independence of management granted to the economic organizations, the economic authority of the state should be restricted to continuous consultation and coordination for the purpose of formulating unified national economic plans, working out proper ratios of the economy, coordinating the activities of all sectors, resolving the contradictions between various economic interests, and enacting and carrying out laws governing the economy.

On the "Unity of Government and Commune" as a Form of Collective Ownership

The form of collective ownership in our country has undergone serious changes since the establishment of the people's communes. Following the inauguration of the "unity of government and commune" in the villages, the people's communes have become not only economic organizations but also the political organizations of the state at the grassroots level. Twenty years of practice has shown that the people's communes are healthy, adaptable, collective economic organizations. But inauguration of the "unity of government and commune" has given rise to a number of problems calling for close examination.

Collective ownership is a form of socialist ownership under which the means of production of each collective ownership unit are owned jointly by its workers' who work jointly, possess the products jointly, and distribute the income jointly. Except for agricultural tax paid to the state, transactions between a collective ownership unit as an independent owner, on the one hand, and other units either under the ownership of the whole people or another collective ownership, on the other, are to be based on exchanges at equal value. Bound by considerations of the interests of the state and concerned about its own economic interests, each collective economy should have independent authority over its production, exchanges, and allocations, provided all its activities are decided jointly by all its workers.

First of all, the nature of collective ownership requires that the state carry out its plans indirectly instead of directly in the collective ownership units. Under our existing system of planning, the state plans directly for the economic units owned by the whole people. They are mandatory and must be carried out. Under collective ownership, the state cannot directly impose mandatory plans on any unit under collective ownership. It can plan indirectly for such units. This means the state can only use economic policies, including pricing, credit control, marketing contracts, bonuses, etc., to guide the units under collective ownership to map out their production, distribution, and exchange plans in accordance with the state plans. However, the people's communes, which have been turned into parts of the state political apparatus at the grassroots by the "unity of government and commune," are bound to receive and carry out orders from higher government authorities. As a result, the system of indirect planning which the state used to guide the economic activities of units under collective ownership has been replaced in many areas by direct state planning. Quotas planned by the state, including production and construction quotas, are imposed directly by the state on the communes and the production teams. This planning procedure leaves no room for units under collective ownership to decide independently their economic activities according to their own interests. Mandatory orders and blind commands issued with no regard for the wishes of the masses and their collective interests compel the communes and production teams to produce, distribute, and exchange as ordered by higher government authorities. For example, without considering local conditions, a number of localities were

ordered to switch from one-crop to double-crop and then to three-crop paddy planting, and production teams were ordered to cut down fruit trees to make room for grain cultivation. These are some of the outrageous instances.

Secondly, the land, tools of production, capital, products, and labor force of a unit under collective ownership are owned collectively by the unit. Except by voluntary exchange, none of these resources can be used without charge either by a unit under the ownership of the whole people or collective ownership. However, since the communes are state government organs at the grassroots level under the "unity of government and commune," a higher level government authority can use the manpower, material, and financial resources of a production team without charge. This defeats the purpose of collective ownership.

As a matter of fact, numerous writings on the system of collective ownership of the people's communes pointed out long ago that the "unity of government and commune" as a form of ownership would enable the state political authority to reach down to all the activities of every collective ownership unit, including its means of production. Before contradictions of any magnitude had surfaced, this was acclaimed as a promising aspect of the people's communes. For example, it was claimed in some of these writings: "The unity of government and commune already inaugurated has made the people's commune both an economic and a political organization at the grassroots level. This political power represents the whole people, not just a certain group. Thus, the actual authority over the means of production of a people's commune belongs not only to this commune as a group but also to the participating political power which represents the whole people." "Direct participation by the state in the production and distribution of the material supplies of the communes gives the communes the essentials of ownership by the whole people and strengthens the leadership of the state over the communes." Now, we can see more clearly that these are the errors rather than the strongpoints of the people's communes.

Thirdly, in an agricultural commune, cadres at all levels were members of the commune, which collectively owns its means of production and products. Like other commune members, the cadres worked to earn their share from the income of the commune. Elected by the commune members, they were supervised by the members to whom they were responsible. Banded together by economic interests, they were inseparable from the whole body of commune members. Having in mind the interests of the commune, they were personally concerned about its management. Since the establishment of the "unity of government and commune," commune cadres have become cadres of the state. They are now leaders of the state political organs at the grassroots level, and no longer are members of the commune or members of any particular group which collectively owns its means of production. Drawing their salary from the state, they have no personal interest in the management and income of the commune. As the appointees of a higher political authority, they cannot be selected

or removed by the commune members. They are the leaders of the grassroots-level government, and the commune committee is a grassroots-level political organ. As a result, many of them place the interests of the state authority far above those of the collective economy. There are also those who abuse the authority given them by the state and interfere arbitrarily in the activities of the commune organizations, even to the point of jeopardizing the interests of the masses. This is best illustrated by a recent newspaper article on the conditions of the Changyang Production Brigade of Pingchiao Commune, Tiantaixian, Zhejiang Province. Suiting measures to local conditions, this production brigade planted soybeans in a part of the field for early crop of paddy. This is not only appropriate but also within the authority of this collective ownership unit to reach its own decisions independent of state interference. Yet the party committee of Tiantaixian has the authority to order the commune committee to plow up the blooming soybean plants to make room for paddy. What is worth noting is the attitude of the commune committee. Unlike the members of the commune, who are concerned about the damage likely to be done by this order, the commune cadres (whose income would not be affected) sided with the Tiantaixian party committee. Instead of opposing this errant order on behalf of the interests of the collective economy, they plowed up the young soybean plants. They even arrested and detained at commune headquarters for several hours those poor peasants who opposed the errant leadership. They also threatened the masses by declaring: "We'll get out a couple of bad guys just to teach everybody a lesson."

Finally, the "unity of government and commune" makes it easy for the state to overload the people's communes with work which the state itself should undertake, such as education, public health, etc. These are often earmarked as items of "mass endeavor" and passed on to the peasants. Such being the case, the commune cadres are forced to attend to governmental, cultural, and educational work, to the detriment of production.

No doubt, many of the problems now existing in the villages were brought about by the disruptive interference of the "gang of four" for which the "unity of government and commune" should not be held responsible. For instance, the "gang of four" claimed they wanted "to run agriculture by proletarian dictatorial methods." This encouraged the cadres to resort to feudalistic fascist tactics to oppress the peasants and undermine agricultural production. Some commune cadres even turned the communes, the grassroots government organs, into vehicles for suppressing the masses. They beat people at will, abused them, punished them, and arrested them. Even if these were genuine proletarian dictatorial methods, still they should not be applied to agriculture. The state cannot use administrative procedures and methods in dealing with enemies to run a collectively owned economy.

Judging by the above analysis, the grassroots-level government organs should be separated from the collective economic organizations of the people's communes and should form distinct village or town governments to handle government work, without interfering with the management of the commune collective economy. Would this change weaken the leadership of the state over the people's communes? Would this widen the gap between the collective ownership of the commune and ownership by the whole people any more than what the "unity of government and commune" has done? It does not work that way. The leadership of the state over the people's communes should be strengthened, but not by making the people's communes subordinate grassroots government organs subject to direct intervention by the state. The proper way to strengthen the leadership of the state over the people's communes is to build a powerful modernized industry owned by the whole people, making industry the leading force in developing the national economy. Then use modern industrial products to equip and modernize agriculture. Moreover, the state, in order to strengthen its leadership over the communes, should formulate and carry out sound economic policies, make use of all available economic mechanisms and levers to develop socialist commerce, and encourage reciprocal exchanges to foster closer economic relations between ownership by the whole people and collective ownership. Engels said: "Violent force could change the status of possession but cannot create private property."⁸ By the same token, the "unity of government and commune," which combines the political power of the state and the collective ownership economy, cannot, contrary to what had been predicted by some comrades, give collective ownership the essence of ownership by the whole people and bring it closer to ownership by the whole people. The state political power cannot create ownership by the whole people. Some localities had tried to create it by averaging the means of production of their production brigades. Actually they only changed the status of possession and destroyed their collective ownership, but they did not create ownership by the whole people. The only way to bring collective ownership closer to ownership by the whole people is to speed up the development of productivity and foster the growth of the collective economy in order to upgrade collective ownership for public ownership. When the people's communes were formed in 1958, some collective ownership units were integrated with the ownership by the whole people. However, because of their low level of productivity, the merger ran into numerous problems which finally split up the two. Having separated from ownership by the whole people, collective ownership seems to have returned to its original state. As a matter of fact, the separation actually promotes the development of the collective economy and brings it closer to ownership by the whole people. For the same reason, there is no cause to be concerned that the separation of "government and commune" will weaken the leadership of the state over the collective ownership economy, which will gradually change into ownership by the whole people. Actual practice will evolve a new way and a new form for the transition to take place.

FOOTNOTES

1. "The Paucity of Philosophy," "Complete Works of Marx and Engels," Vol 4, p 180.
2. "Marx's Letter to B. W. Qnenkov, 28 December 1846," in "Selected Works of Marx and Engels," Vol 4, pp 324-325.
3. "Socialist Political Economy," Compiled by the Shanghai Organization of the "Gang of Four."
4. "An Address before the Joint Session of the All-Russia Central Executive Committee, the Moscow Soviet, and the All-Russia Congress of Labor Union Representatives," in "Complete Works of Lenin," Vol 28, p 378.
5. "Principles of Communism," in "Complete Works of Marx and Engels," Vol 4, p 365
6. "On Ten Big Relations," in "Selected Works of Mao Zedong," Vol 5, p 273.
7. It must be noted that a number of specialized corporations are economic organizations in name only. They do not enforce economic accounting and are actually units of the state administrative system. Some specialized corporations are known within the country as departments or bureaus, although they are called corporations abroad.
8. "Anti-Duhring," in "Selected Works of Marx and Engels," Vol 3, p 202.

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NATIONAL ECONOMIC POLICY

PROFIT SYSTEM NECESSARY IN SOCIALIST ECONOMY

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[Article by He Jianzhang [0149 1696 4545] Kuang Rian [6782 2480 1344], and Zhang Zhuoyuan [1728 0587 0337]: "Profit Rate and Production Costs in the Socialist Economy"]

[Text] Are profit rate on capital and production costs the integral parts of socialism in a political economy? Is it proper and necessary to use profit rate as a criterion or a comprehensive quota for evaluating the results of the economic activities of the different production departments and enterprises? Is it proper and necessary to use production costs as a basis of price (wholesale price or factory price)? These were discussed by our economists in the late 1950's and early 1960's. But discussions of these problems, which ought to be encouraged under the party policy "Let all schools of thought contend," were killed after 1964, first by Chen Boda and then by the "gang of four." Theoretical discussions have been liberated after the downfall of the "gang of four," and socialist modernization calls for in-depth study of these economic problems.

Speaking to the Ninth Trade Union Congress, Comrade Deng Xiaoping said: "To speed up economic development, all enterprises should stress specialization, raise the technological level of their staff and workers, train and evaluate them, strengthen their economic accounting, and raise both labor productivity and the profit rate on capital." This indicates very clearly the importance of higher profit rate to economic development and the need to study the problem of profit rate and production costs (we believe that if we recognize the importance of the rate of profit on capital, we must also recognize the importance of production costs).

This article is meant to expound further our own views on the problem of profit rate and production costs in the socialist economy¹ in order to rebut the erroneous views of the "gang of four" and to discuss [the problem] with those comrades who do not agree with us.

I

Before we go into the problem of the profit rate on capital and production costs in the socialist economy, we must know the nature and functions of the socialist profit system. The crucial question is: Does the socialist profit system stand for a comprehensive representation of the results of the economic activities of all socialist enterprises and departments? Our answer to this question is affirmative.

The basic principle of Marxist political economy tells us that ever since mankind emerged from the age of primitive communes, surplus products and the accumulation of surplus products have been the foundation of all social development. The ownership of the surplus products and the social class or group enjoying the benefit of these surplus products are the major criteria distinguishing different social economic systems and different goals of social production. In a capitalist society, surplus products (surplus value) are owned by the capitalists, who exploit their employees. Surplus products under socialism belong to and serve the ever-increasing needs of all the working people instead of private owners.

Profit which exists in the relationship between commodities and currency is the representation or transformation of surplus products in the form of a currency. Capitalist profit stands for the representation or transformation in the form of a currency of the surplus products (surplus values) of a capitalist society. Socialist profit (including tax) is the representation or transformation in the form of a currency of the surplus products of a socialist society. Profit under socialism belongs to and works for the welfare of all the workers, while profit under capitalism belongs to the capitalists. This is the fundamental difference between production under socialism and that under capitalism.

For a long time many economists have believed that the basic difference between capitalist production and socialist production is that the former aims at and actually produces for value, while the latter aims at and actually produces for utility. Thus, socialist production should aim at acquiring a utility value instead of focusing on profit. If not, it would deviate from socialism and the purpose of socialist production. We do not think this is the whole story.

No doubt, the purpose of capitalist production is value, the extraction of maximum profit. But we cannot say that the basic difference between capitalist and socialist production is simply that socialist production aims solely at a utility value and is not concerned about acquiring surplus products and profit. Such a concept leads to waste and laxity in economic accounting instead of encouraging reduction of wasted labor in production, greater productivity, and economic effectiveness. To achieve sustained development of socialist production to meet the needs of society and raise the material

and cultural standard of living of the working people, we must increase the accumulation of products--the resource for more extensive reproduction. The workers of the production sectors must produce more and more surplus commodities and earn more and more profit. It is in keeping with the purpose of socialist production for any enterprise to earn profit.

Every socialist enterprise, as a going concern, must practice strict economic accounting, work for economic effectiveness, and cut back the use of labor beyond what is generally required in order to earn more profit. For the same reason, it must ensure and improve the quality of products. Since utility is the material substance of value, a product without a utility value does not have any value at all. If it does not represent a definite quality, it cannot remain on a par with other products of the same category. The value of a product cannot be realized unless it has a value of usefulness to society, and its quality has to be assessed by consumer groups or individual consumers. Engels said as early as 1844 that value represents the relation between production cost and effectiveness.² Later, he reiterated this point in his writing "Anti-Duhring," where he said: "In weighing the question of production, the ratio between the aforesaid effectiveness and labor cost is the only part of the concept of value in political economy which will remain intact in a communist society. I had already mentioned this in 1844."³ This shows that value itself involves public evaluation of the effectiveness of products. As far as this is concerned, the creation of more value and the creation of a greater utility value to satisfy the need of society are completely compatible.

Summing up what has been stated above, it is clear that value and its equivalent in currency--the amount of profit of surplus products put out by the socialist production departments or enterprises--is a comprehensive representation of the quality of their work. That is to say, profit is the true representation of the effectiveness of the economic operations of a production department or enterprise. As a rule, the more socialist profit a department or enterprise creates or realizes, the greater is its contribution to the state and society. It also speaks for its successful and praiseworthy business management. If this were not so, the whole situation would be reversed.

The "gang of four" erroneously took value and utility value as being diametrically opposed, and indiscriminately earmarked "producing for value and producing for profit" as deviations of the socialist enterprises and their leaders. In their "Socialist Political Economy," the "gang of four" declared that the very existence of the commodity system under socialism provides an economic condition conducive to "production for value and production for profit" and induces the management personnel of enterprises and economic departments to abandon the objectives of socialist production and take the road of production for value and profit. "Once an enterprise begins to take such road, whatever it produces, how it produces and exchanges the products, will be controlled by the law of value and profit. When that takes place,

the enterprise will run its production according to capitalist instead of socialist principles and cease to be a socialist enterprise." The "capitalists and capitalist roaders within the party are the offsprings of the pursuit of profit."

The "gang of four" and their publicity media did not care how value and profit are created, who owns them, and who enjoys them. Equating socialist profit to capitalist profit, they arbitrarily declared that any enterprise which pursues profit is a capitalist enterprise, and that the workers who produce surplus goods for socialism do not differ from the hired laborers who create surplus value for the capitalists. Does this mean that profit created by socialist enterprises go into the coffers of the capitalists? In fact, if a socialist society and a proletarian dictatorship did not have the profit earned by their socialist enterprises, they would not be able to develop their national economy and might not even have enough revenue to keep the state political machine running. We must remember how the slanderous slogan "profit takes command" circulated by the "gang of four" almost ruined the socialist economy and crippled the political machines of the proletarian dictatorship. The criterion to judge whether an enterprise produces according to socialist or capitalist principles is not whether it produces for utility value or produces for value and profit. As Lenin said in his review of "The Economy of the Transitional Period" by Bukharin, it depends on who owns the profit. An enterprise is run according to capitalist principles if its profit belongs to the capitalists. It is run according to socialist principles if its profit belongs to all the workers and works for their benefit. The pursuit of profit by a socialist enterprise is by no means a base built by the capitalist roaders in power. Instead, it is done because the more profit earned by an enterprise, the more solid would be the material foundation of a socialist society and the greater the material strength required by the proletariat to combat capitalism and the capitalists.

Socialist profit is that portion of increment of production over and above production costs that is earned by a socialist enterprise which produces according to a plan approved by the state and carried out in conformity with state economic policy, financial regulations, and law. The only way for a socialist enterprise to earn profit is to adopt new technology, improve and raise the level of management, increase labor productivity, and cut down cost. These are what socialist economic law requires, and the profit so earned would help speed up socialist production: the greater the profit, the faster the pace. An enterprise which fails to carry out state plans, does not perform its contractual obligations nor abides by the economic and financial rules and regulations but produces poor quality products, would not be able to realize the value of its products and earn profit and would face economic sanctions. Profit earned by speculative and improper means is not socialist profit. In fact, the use of unethical methods to earn profit is conducive to undesirable business practices, profiteering, and denial of profit to the working people.

In assessing the operation of a socialist enterprise (like our industry owned by the whole people), we must cover the entire enterprise, including going over the eight points of assessment, although there is no need to place equal emphasis on all eight points. Inasmuch as socialist profit represents more or less the totality of the results of the operation of an enterprise, including the types and quality as well as the productivity of labor, it can show the economic effectiveness of that enterprise. We must keep in mind that due to our planned pricing, commodity prices have been rather stable but do not reflect exactly the fluctuating amount of labor required to produce certain products and difference in the management of different industries. Consequently, the percentage of profit often differs from industry to industry. To ensure that the entire socialist production develops in the proper ratio as planned, assessments must be based on the utility value of the products in terms of quantity, quality, and categories in order to encourage production to stay within the confines of the economic plans of the state. As long as the enterprises observe the production plans of the state, the profit they earn is the only composite index of their operational effectiveness.

II

Although profit is the composite index of the operational effectiveness of socialist enterprises, it does not offer any clue to their economic effectiveness, because the size, technology, and extent of mechanization are not the same in different enterprises. Consequently, absolute profit is not a good measure of success. When a large enterprise with advanced technology and equipment earns a big profit, it does not mean it is managed well. On the other hand, when a small enterprise with less sophisticated machinery earns a small profit, it does not mean it is poorly managed. The criterion of assessment should be the relative profit or the ratio of profit.

Here we run into a controversial issue which has provoked debates among economists for a long time. The crucial point is whether to use the profit rate of wages, the profit of production costs, or profit capital to assess the economic effectiveness of an enterprise. We believe that profit rate on capital is the correct criterion.

The reason profit rate on capital is used in a socialist society to assess the production efficiency of socialist enterprises is that the material factors of production, especially sophisticated equipment and scientific technology, have become increasingly important. The labor productivity of the human race is controlled by both subjective, or human, factors and by objective factors, especially material and technological equipment. In modern large-scale production, the productivity of labor depends mainly on material and technological equipment.

Speaking of capitalist production, Marx said: "The labor productivity of a society as an object of ownership is expressed in terms of fixed capital. The so-called labor productivity of a society denotes, first, the power of science; secondly, a combination of social forces involved in the process

of production; and, finally, the skill which transmits human labor to impersonal machinery."⁴ Except for the concept of the ownership of capital, the statement is perfectly applicable to a socialist society. It is clear that fixed capital means primarily material and technological facilities, the material representation of the social productivity.

According to an analysis by Marx in "Das Kapital," fixed production capital covers all vehicles of labor: (1) production tools (such as electric generators, machine tools, blast furnaces, boilers, etc.); (2) the means of production, which Marx called the circulatory system of production (such as tubing, containers, storage, etc.); and (3) other vehicles of labor required in the process of production (land, factory buildings, roads, canals, etc.). Of all these, the most important are machinery and equipment. In the 1970's, for example, England and France invested nearly half of their fixed capital in transportation, machinery, and equipment. The total fixed capital investment of private manufacturing enterprises in America has undergone these changes: in 1950 investment in equipment was 47% and in buildings 53%, but in 1975 investment in equipment rose to 60% while that in buildings dropped to 40%. Our own investment in capital construction has also shown marked changes as the technology of production has improved. The portion of the total investment in capital construction diverted to equipment doubled between 1950 and 1976, but the portion spent for building and installations dropped markedly during the same period.

Owing to differences in material conditions of production, especially differences in material and technological facilities, different enterprises within the same department differ in productivity even though they produce identical products. Marx said: "A labor force especially high in productivity always multiplies by itself. In other words, the value it produces is higher than what an average labor force could achieve within the same period of time."⁵ A labor force that is especially high in productivity usually denotes a labor force with advanced technology and equipment. The reason this labor force can create greater value is that it has "adopted improved methods of production" to raise its productivity and multiply the value it creates.

The degree of increase in labor productivity by different enterprises depends directly on the amount of the means of production put into operation by an identical amount of labor force in each enterprise, and the amount is determined principally by the material and technological facilities. Marx said: "The special development of labor productivity in each particular production sector differs in degrees and is in direct ratio to the amount of the means of production put into operation, or in direct ratio to the means of production put into operation by a given number of workers within a given working day under given conditions. This means that labor productivity is in reverse ratio to the amount of labor force needed to put a given amount of the means of production into operation."⁶ In a capitalist society, when the

incorporation of capital of an enterprise is high in ratio to its operating capital, it means that its labor productivity is developing very fast or comparatively fast. For example, between the Industrial Revolution and World War II, the incorporation of capital was lower in agriculture than in industry. Thus, the development of agricultural labor productivity was lower than industry. The situation has changed since World War II. In some developed capitalist countries, fixed capital in agriculture per worker has exceeded that in industry, pushing agricultural labor productivity higher than that of industrial workers. In an address to an Agricultural Exhibition in August 1975, former U.S. President Ford said: "The average fixed capital per farm worker is \$98,000, while that of the manufacturer is only \$55,000." There are estimates that the annual average increase in agricultural labor productivity since World War II has been about 6%, while that of manufacturers has been less than 3%. The basic principles involved are applicable to a socialist society.

Take any society as a whole, "the level of labor productivity is the equivalent of the amount of means of production turned into products by a worker working at a given intensity within a given period of time. The amount of the means of production which a worker uses increases with the increase in labor productivity. The use of machinery, draft animals, mineral fertilizer, drainage pipes, etc."... "is a new factor contributing to increased labor productivity."⁷ For instance, the amount of capital and equipment per worker in the Soviet Union in 1955 was 50% higher than in 1950, and labor productivity in the same period increased by 49%. The amount of the means of production (expressed in terms of funds spent) put into operation by the workers of those industries owned by the whole people in our country increased more than twofold between 1952 and 1977, and labor productivity in that period increased about one and a half times.

Marxist political economy tells us that, as a rule, still higher labor productivity or still faster development of labor productivity would result in surplus labor.

In his analysis of capitalist production within a given sector (which produces identical products), Marx said: "When a factory uses a new invention not yet widely used, it can sell its products cheaper than its competitors, but the price would still be higher than the value of the individual products. This means that its high labor productivity, which yields surplus labor, enables it to realize an excess amount of profit."⁸ Except for capitalist exploitation, this principle is applicable to any socialist enterprise which adopts advanced technology and new equipment.

An industry which adopts more advanced technology and equipment than those of the rest--i.e., an industry with a higher organic growth of capital (funds)--can raise its labor productivity faster than the rest. This increased labor productivity will yield much greater profit if the price remains constant or does not rise in proportion to the increase in labor productivity.

Under the socialist system, the excess profit earned by an enterprise or department due to its better material and technological facilities is often not the result of subjective efforts but the result (as in the case of socialist ownership by the whole people) of more capital invested by society or the state. Generally speaking, an enterprise or department with more advanced material and technological facilities usually shows a faster growth of capital and uses more capital. This capital represents the accumulation of surplus labor derived from investment by society for production. It is the crystallization of the labor of the working people, an essential factor in production. An industry owned by the whole people in our country has to invest over 10,000 yuan in fixed capital for every additional worker it employs. As the amount of capital available for investment to expand production is always limited, a socialist society must see to it that the capital is used effectively so as to ensure greater, faster, better, and more economical development of production. Inasmuch as the amount of capital spent for better material and technological facilities, on the one hand, and the level and pace of the increase of labor productivity, on the other, are closely related, those enterprises and departments with more sophisticated material and technological facilities which require more capital investment must earn more profit for society and the state. Their production performance must be assessed by the ratio between the profit they earn and the amount of capital they use.

Using rate of profit as a criterion for assessing the performance of all enterprises and departments removes the impact of the difference in the amount of capital and technological facilities which set apart different enterprises and departments. Like levying a special tax on rich mines as a handicap in favor of the poor mines, this places the different enterprises and departments on an equal economic footing under normal production conditions (as stated above, labor productivity depends mainly on material and technological facilities) so as to reflect more accurately the subjective efforts of these enterprises and departments in production performance. This will make a fair assessment much easier. As a rule, a more efficiently managed enterprise usually earns more profit than one less efficiently managed.

Using profit rate as a criterion for assessing the performance of all enterprises and departments helps them use their capital wisely, raise their effectiveness, achieve more at lower cost, stop investing blindly, eliminate waste, speed up the turnover of capital, and increase the effectiveness of capital utilization of the society as a whole.

Using profit rate as a criterion for assessing the performance of all enterprises and departments encourages them to strive to exploit their potential, seek for innovations and modifications, adopt advanced technology, raise productivity and increase the economic effectiveness of the entire enterprise. The exploitation of potential, innovations, and modifications could

be achieved quickly (requiring less time to activate production) at very little cost (requiring only 1/3 of the investment needed to establish a new enterprise or equal productivity). Experience shows that this approach, which helps expand production speedily at low cost and increases the profit margin, is favored by most enterprises. The enterprises and departments can also pursue technological innovations and adopt advanced technology because they do not need too much investment to score success and higher profit. Obviously, this approach can help increase the labor productivity of all enterprises and departments as well as that of society as a whole, and also speeds up the Four Modernizations of our country.

In a word, the use of profit rate as a criterion for assessing the results of economic activities encourages all enterprise and departments to improve their production performance, brings together the economic interests of both the enterprise and departments on the one hand and those of society on the other, raises the level of the management of the economy, and speeds up the development of the entire national economy.

In the past there were several sources of opposition to the use of profit rate as a criterion for assessing the economic effectiveness of the socialist enterprises and production departments. We propose to comment on them very briefly.

The authors of one article said: "Profit depends not only on the quality of the work of an enterprise but also on many other objective factors, including, for instance, the quality of and distance from raw materials, the supply of fuel and electric power, the number of production tasks, the equipment systems, etc. It is not as simple as claimed by Comrades He Jianzhang and Zhang Ling that the use of profit as a criterion basically removes the impact of differences in objective factors on the results of the economic activities of different enterprises and departments.... Furthermore, even the conditions of production within a single enterprise do not remain the same, and they are usually beyond the control of the enterprise concerned."⁹

True, the profit of an enterprise depends on many factors. But under normal conditions of production, it depends mainly on the subjective efforts of the enterprise (as shown by its management) and material and technological facilities (as shown by the amount of capital invested). The "Thirty Articles of Industry" call on every industry to reach five decisions to ensure stable production conditions. These five decisions are: (1) a decision on the direction and scale of production; (2) a decision on personnel and organization; (3) a decision on the amount of raw materials, fuel, power, and tools and their sources of supply; (4) a decision on the amount of fixed and operating capital; and (5) a decision on relations of cooperation. Once an enterprise is consolidated and has worked out these five decisions, it is possible basically to remove the impact of abnormal

production conditions on profit. Abnormal production conditions are no justification for rejecting the use of profit as a criterion. Otherwise, people would regard abnormal production conditions as something inherent in the socialist enterprises, or else as something inevitable or insurmountable under socialist economic management. Under normal production conditions, the use of profit as a criterion can basically eliminate the impact of different objective factors (especially material and technological facilities, although a special tax must be imposed on those enterprises using better natural resources or richer mines) on the economic effectiveness of different enterprises (departments) and can make the assessment of the quality of work of these enterprises more accurate.

The author of another article asserts: "The application of the profit principle to socialist enterprises means assessing economic management by the profit rate. The amount of capital used by an enterprise must be matched by a given level of profit. An enterprise earning profit above that level is considered to have efficient management. It is considered inefficient when its profit falls below that level. To encourage earning more profit as a motivating force for improving management is bound to work against both the socialist principle of planning on the one hand and planned management of enterprises by the state on the other." "Inasmuch as the system of planned production quotas takes into consideration the differences in the objective factors confronting different enterprises, that is a much better assessment criterion than any other experimental standards."¹⁰

We find the above accusations of the profit rate ill founded. We favor profit rate as a criterion of assessment, but we do not reject the socialist principle of planning and planned management of enterprises by the state. Socialist profit has to be earned by carrying out the state's plans and observing the state's economic policy and its financial and economic regulations. By planning we mean production plans. An enterprise which strives to earn more profit by improving its management, raising its labor productivity, and cutting down its cost does not work against the socialist principle of planning. The management and performance of an enterprise which does not carry out the state's plans and deviates from the socialist orbit are not fit to be judged in terms of its profit rate. When economic management improves and financial regulations are strictly enforced, an enterprise (department) which does not carry out the state's plans will be liable for breach of contract and must pay damages, or even sustain losses. Moreover, such capitalist business practices are easy to detect and rectify. Thus, we must not take isolated cases of failure to carry out the state's plans and reckless business operations as reasons for rejecting the entire profit rate system. In fact, the profit rate used in a socialist state favors profit allowed under a planned economy. It is a powerful instrument for developing a planned economy and strengthen planned management of the whole national economy.

Opposing the use of profit rate as a criterion for assessing economic effectiveness, the author of the above article proposed a different method of assessment based on planned quotas, which he believes to be a more rational method because it "takes into consideration the divergent subjective and objective factors of different enterprises." We do not think so. There are over 300,000 industrial enterprises in the whole country, some 80,000 of which are state-operated. If there is no uniform criterion for assessment, how can the state (and localities) consider the "different subjective and objective factors" of each enterprise and formulate so many different assessment criteria? It is difficult, if not impossible, to work out tens of thousands of equitable production quotas.

There are still others who claim that "when profit rate is used as a criterion to assess the contributions, management, and effectiveness of all enterprises, it will drive them to concentrate on achieving higher levels of profit. The pursuit of profit would force the production operations of every enterprise to drift away from socialist interests" and would "bring chaos to the socialist economy."¹¹

As stated above, profit earned by the socialist enterprises is not only beneficial to socialism but also increases the material wealth of the socialist society and the revenue of the state. Is it reasonable to expect a socialist enterprise to work for socialist interests without earning any profit? As a matter of fact, the concept by the author fails to distinguish socialist profit from capitalist profit, and considers profit and socialism completely incompatible. Everybody knows that what "brought chaos to the socialist economy" during our socialist construction was not the advocacy of profit. It occurred when Lin Biao and the "gang of four" ran amuck. They brandished the big stick "profit takes command" to crack down on the cadres and the masses and to force numerous enterprises and departments to sustain tremendous losses, jeopardizing the state's sources of revenue. Having exposed the hidden rightist counterrevolutionary faces of the "gang of four," everyone can see very clearly that their campaign against "profit taking command" was to drive the country to poverty and destroy socialism. This tells us that all socialist enterprises (departments) must feel justified in seeking profit in order to contribute even more to our socialist construction. The use of profit rate as a criterion to assess economic effectiveness will help us overcome the disruption of the socialist economy by Lin Biao and the "gang of four" and improve the management of our economy.

III

The use of profit rate as a criterion of economic effectiveness must be based on price (internal wholesale or factory price within the system of ownership by the whole people), which basically is the production cost (the amount of profit based on the average production cost sustained by the

department which produces the product, plus the amount of capital, times the average rate of profit in all departments).¹² If price were not based on production cost, the profit rate criterion would be meaningless and could not represent a comprehensive index of economic effectiveness.

For example, there are three large-scale mechanized metallurgical plants practically equal in size, in the extent of mechanization, and in the size of their staff and workers. They are equally well managed and equally satisfactory in meeting the requirement of the state's plans. However, since they produce different products marked at different prices, the profit earned in a certain year was about 10 million yuan for the first plant, about 100 million yuan for the second, and over 500 million yuan for the third. The difference in earnings was tenfold to several tenfold, and so was the difference in the rate of profit on capital. Under these conditions, it is impossible to use profit, including the rate of profit on capital, as the composite index of performance for these enterprises. It is equally difficult to withhold a given percentage of their profit or over-quota profit which they earned as a reserve.

The same is true of the various departments, which vary vastly in the amount and percentage of their profits. Some departments, such as the coal department, earn very little profit and yield a low profit rate on capital, but not because their products are unimportant. In fact, their products are important, and their performance has been satisfactory. The reason that the amount of profit they earn and their profit rate on capital are low is that their products, especially coal, are priced too low. Another example: there are two equally important industrial departments which do equally well in production if they are assessed in terms of the current prevailing price. If their labor productivity were assessed in terms of their production cost, one would be 18 times higher (1976) than the other. The one showing a higher labor productivity would be credited with a tremendous profit, while the other, low in labor productivity, would sustain heavy losses. Such being the case, profit and the profit rate on capital cannot be used as criteria to assess their economic effectiveness.

We all know that price represents social evaluation of labor and the results of production. If the prices of different categories of products were not based on production costs, it would be difficult to compare on an equal basis those products produced by different departments or by different sectors of one department, and equally difficult to use the rate of profit on capital as a criterion of economic effectiveness. If commodity price is based on production cost, the quality of management of different production departments or enterprises will be fully represented by the rate of profit on capital. Since production cost is a manifestation of value, total production is the equivalent of the same total value. Basing commodity prices on production costs is the best way to apply the law of value for the improvement of economic management in a socialist society.

In the context of what has been stated above, we believe that to take profit as the composite index of economic effectiveness is to recognize that both the rate of profit on capital and the production cost play the same role. Contradictions in logic would arise if we were to take profit as the composite index of economic effectiveness but refuse to regard the rate of profit on capital as a criterion for assessing economic effectiveness. By the same token, it would be illogical to take both profit and the rate of profit on capital as the composite indices of economic effectiveness but refuse to admit that production costs also play the same role.

Consequently, the arguments which favor profit as the composite index of economic effectiveness and the profit rate on capital as the criterion to assess economic effectiveness are also arguments favoring the role of the cost of production. However, since production cost has a direct bearing on relations between different production sectors, we have to examine it from the viewpoint that socialist production means large-scale socialized production.

In a capitalist society, competition among different sectors makes commodity prices fluctuate with production costs. Inasmuch as free, capitalist competition does not exist in a socialist society, why is it still necessary to base commodity prices on production costs?

Socialist production implies large-scale socialized production. Although socialist revolutions have triumphed in some countries that are comparatively backward in productivity, where socialist construction has not yet reached the stage of large-scale socialized production or where the original level of productivity was so low at the final stage of the socialist revolution that large-scale socialized production simply has not emerged, these phenomena are temporary. Since socialist production is large-scale socialized production under socialist public ownership, built on the foundation of socialized capitalist production, it is bound to be more socialized than is socialized capitalist production, with strong ties existing between different production sectors. For instance, the sector which produces steel depends on the coal and electric power departments for fuel and power and on the transportation department to ship its raw materials, fuel, and products. At the same time, what it produces are raw materials for such light industries as machine making and building, etc. In a word, each sector can list a great variety of departments to which it is related.

First, under such conditions, the development of labor productivity in one department (such as the department of coal, steel, or machinery) would lead to a reduction in the expenditure and price of the means of production of other production departments (such as textiles, light industries, etc.). This is well understood by those departments which produce means of production, because the finished products of one are the means of production of another.

Secondly, a higher level of profit and a higher rate of profit on capital in one production department, such as Department A, could be the result of higher labor productivity in Departments B and C. This means the development of labor productivity in B and C (departments which supply A with the means of production) helped A to reduce the cost of its means of production and expenditure because, everything being equal, the higher profit and higher profit rate on capital in Department A are derived from the development of labor productivity in B and C.

Thirdly, according to the Marxist theory of value, a given amount of labor creates a given amount of value in different sectors of production, no matter how different the technological facilities are. Marx said: "If we examine a production sector, like the one engaged in print setting where there are no machines, the value created here in 12 hours is the same as that created in 12 hours by another production sector equipped with machines."¹³ Consequently, a department which upgrades its material and technological facilities increases its labor productivity. But what it contributes to the increase of labor productivity in other production departments and to the development of the national economy cannot be accurately assessed by the value thus created.

Everybody knows that increased labor productivity plays a decisive role in the development of the socialist economy. The kind of material and technological facilities and the amount of capital a production department uses determine, under normal conditions, not only the extent of the development of its own labor productivity but also the extent it would contribute to the development of labor productivity of other production departments and to the development of the national economy. To price its products on the basis of production costs (cost plus profit figured at the average rate of profit on capital) is to recognize the economic role of these factors and to make the assessment of labor and production performance more equitable so as to reflect accurately how much each department had done to increase labor productivity.

Marx said: "Economy of time and planned distribution of working time to different departments of production is the primary or the supreme law of economy in a collective society."¹⁴

How can we put this Marxist law into practice in a socialist society?

As far as the system of price is concerned, if the price of a product is based on its social value (in practice, this means profit based on the average cost of the producing department, plus the average rate of profit on wages, times the total amount of wages), it would not put the above economic law into practice. The reason is that such a system of pricing does not favor the adoption of advanced technology, increased labor productivity in both the department and society at large, and true economical use of working time.

When the price of a product is based on its value--i.e., profit determined by the amount of human labor incorporated in the price of the product--a department which incorporates less capital in production, or even depends primarily on manual labor, would show a greater profit because it uses more human labor. Viewed in the light of the profit rate on capital, a higher profit margin represents more favorable business conditions and greater economic effectiveness. Would this encourage the department to adopt advanced technology and convert production by manual labor to that by machine in order to achieve automation and modernization? No, it would not, because this would cut back the use of human labor and consequently the amount of profit. When more capital is used and more means of production are incorporated in the value of the product, the margin of profit in terms of the profit rate on capital goes down.

On the other hand, a department which incorporates a large amount of capital in advanced technology will show a smaller margin of profit, as it uses a smaller human labor force. Viewed in terms of the rate of profit on capital, a lower margin of profit means unfavorable production conditions and lack of economic effectiveness. If the department became more modernized by adopting more advanced technology and increasing its labor productivity even more, it would use a much smaller human labor force and the margin of profit would go down even further. As a result, it would face more unfavorable production conditions and show much less economic effectiveness.

From the point of view of investment, if price is based on the value of a product, everything else being equal, where could capital for expanding reproduction be invested more profitably? Obviously it should go to a department which requires less capital and uses a larger human labor force, earns more profit, and speeds up the circulation of capital. If the capital went to a department with advanced technological facilities, it would be considered unprofitable because it uses a smaller human labor force and earns less profit. Consequently, a price system based on value should not be adopted because it would not work favorably for those departments which concentrate on speeding up the Four Modernizations and on adopting new technological facilities.

Commodity price based on production costs works differently. This system of pricing, which uses the amount of capital incorporated in the price of a product to determine the margin of profit, gives due credit to the development of greater labor productivity in other production departments and society as a whole, brought about by the adoption of advanced technological facilities (organic incorporation of capital). This would encourage all production departments to adopt advanced technology, to raise the level of modernization and automation, and to work for greater labor productivity and more economical use of labor force.

Basing the price of a product on its production costs leads to the best distribution of worktime in different production departments cherishing identical socialist objectives. This in turn helps society as a whole to reach for a more economical use of worktime. The system also tells us which departments are most profitable for investing capital for expansion of production so as to ensure an average or above average rate of profit on capital and the rational use of such capital. Of course, the socialist economy should develop according to a planned ratio. But different options could be allowed to maintain development according to that ratio. Advances in science and technology have made the use of substitutes (such as plastic products for steel products, and different sources of energy and means of transportation) more popular, and certain (but not all) items can be obtained through foreign trade. All these help maintain the equilibrium. Thus, there is more than one way to meet the needs of both society in general and the working masses. Of all these options, the one which prices a product on the basis of its production costs is the most desirable, because it raises the rate of profit on capital and helps accumulate more resources to sustain speedy development of the socialist economy.

In previous discussions, many comrades advanced numerous arguments against "the theory of production costs." While there is no room in this article to take them up one by one, we wish, however, to comment on some of these arguments.

One article declares: "To study the profit rate on capital and to price a product according to its production costs are two separate problems not inherently tied together. No matter whether the price of a product is based on its value or its production cost, once it is set, if its quantity, quality, and cost remain unchanged, the fluctuations in the rate of profit on capital are indications of changes in the amount of capital actually used by the enterprise concerned. Thus it is entirely possible to assess, without the aid of production costs, the changes in the rate of profit on capital and the results of the different amounts of capital actually used."¹⁵

We believe it is impractical to assess the economic effectiveness of an enterprise by the rate of profit on capital unless the price of its products is based on production costs. If the price were based on value, as suggested in the article, the same enterprise (assuming it is representative of the entire production department) which has adopted advanced technological facilities and increased its incorporation of capital in equipment would see the price of its products drop as labor productivity increases. Thus, in spite of higher technological level, greater labor productivity, and lower cost of production per unit, its profit rate on capital will still drop. If the enterprise uses a still smaller labor force, its amount of profit will probably decline too. Does this decline represent economic effectiveness?

The rate of profit on capital is often used to compare the economic effectiveness of different enterprises and departments. However, if production costs were not used as a basis, then the enterprises and departments which achieved a high rate of profit on capital would be those most backward in technology and most dependent on manual labor. Those which had the lowest rate of profit on capital would be the most advanced technologically and would use the smallest labor force. If profit rate on capital were used as a criterion of assessment under these conditions, wouldn't people say we had turned things upside down?

Another article asserts: "Using the average profit rate on capital as a basis for pricing products...is contrary to the pricing policy based on value and is unsuitable for economic accounting." "If the average profit rate on capital were used by all enterprises to determine the price of their products, their investment effectiveness would be identical and impossible to compare. Only by basing price on the value of products can there be differences in profit rates on capital in the different enterprises, and a workable criterion to assess the economic effectiveness of their investments."¹⁶

Value is created by labor. Material force does not create value. But material force plays an important role in developing social productivity and increasing labor productivity. The impact of material and technological facilities on the development of labor productivity and social productivity cannot be fairly assessed in terms of value, and only when price is based on production costs can it be adequately evaluated. The purpose of basing the price of a product on its production costs is to make material production facilities help human labor, in those departments which produce identical products, to become more fruitful in production and to create more value for different departments. This would facilitate rather than impede economic accounting. If economic accounting covers only the effectiveness of labor and not that of capital, the accounting is incomplete and would let capital lie idle and wasted and retard the speedy development of production. This has been attested by the experience of a number of socialist countries. Socialist economic accounting must cover the effectiveness of both labor and capital so as to reach a comprehensive assessment of all economic activities. The prerequisite of this kind of accounting is to base the price of products on the cost of production.

Moreover, only by basing the price of products on the cost of production can we accurately assess the economic effectiveness of investment. When new capital is invested in different departments, the actual profit rates on capital will be different. This enables us to compare the different degrees of investment effectiveness. However, if price is based on value, the investment will earn more profit, as we have said before, when it is invested in technologically backward departments where the rate of profit on capital is higher. This, however, could easily lead one to the wrong conclusion--that the economic effectiveness of such departments is higher.

There is yet another article which states: "The principle that an equal amount of investment would earn an equal amount of profit happens to be the principle of capitalist production relations....Under the socialist system, the purpose of production is not to amass more capital, nor are products meant to be exchanged for capital. Such being the case, how can it be possible for an equal amount of investment to earn an equal amount of profit? Since planning in socialist economy has done away with the principle of competition, how can equalization of profit be achieved?"¹⁷

True, the capitalist system of competition does not exist in a socialist society. But progress and backwardness are still compared in a socialist society. As the role of material and technological facilities is becoming more and more important in developing the socialist economy, the planned use of an average profit rate on capital as a criterion for comparing the work of different enterprises and departments under normal production conditions is an objective requirement for the development of the socialist economy. It takes advanced technology, a rational distribution of work-time to various production departments, and well-chosen programs to make socialist economic activities effective and capable of raising socialist labor productivity. This cannot be achieved unless labor and products are given rational social evaluation and the price of products is based on production costs. Without a uniform standard of economic effectiveness and a sound pricing policy, there is no way to compare the various enterprises and departments of the national economy, nor would there be an economic basis for selecting suitable programs to develop the national economy. Inasmuch as free, capitalist competition is eliminated, spontaneous social planning activities will give way to a rational readjustment of socialist production in order to ensure maximum economic effectiveness.

It is a complicated matter to enforce planned pricing policies under the socialist system. Lenin once said: "Value (social) turns into price through an extremely complex rather than a simple direct process."¹⁸ This is true of prices in a socialist society. Many factors must be considered when we set the price of any product. Strictly speaking, our suggestion to base the price of a product on its production costs is no more than principle on wholesale and factory prices. Numerous practical conditions must be taken into account when a price is actually set. However, once we agree on the principle of price, practical details are much simpler to handle.

The profit rate on capital and production costs are by no means new problems in the socialist economy. But they have not been fully explored or clearly understood. We have expressed our views and discussed the views of different schools. At our present level of understanding, we cannot say definitely that our views are correct and that those we criticized are wrong. It takes actual practice to test which is more accurate. Consequently, we welcome criticisms and comments, and especially comments by those comrades who do not agree with us.

FOOTNOTES

1. The questions of the profit rate on capital and of production costs were first discussed by He Jianzhang and Zhang Zhuoyuan, two of the authors of the present article, in an essay entitled "Production Cost in the Socialist Economy" (signed by He Jianzhang and Zhang Ling), in JINGJI YANJIU, Vol 5, 1964.
2. "Outline of Critical Study of Political Economy," in "Complete Works of Marx and Engels," Vol 1, p 605.
3. "Selected Works of Marx and Engels," Vol 3, p 412.
4. "Outline of Critical Study of Political Economy," (draft), Vol 3, p 369.
5. "Das Kapital," Vol 1, "Complete Works of Marx and Engels," Vol 23, p 354.
6. "Das Kapital," Vol 3, "Complete Works of Marx and Engels," Vol 25, p 153.
7. "Das Kapital," Vol 1, "Complete Works of Marx and Engels," Vol 23, pp 682-683.
8. "Das Kapital," Vol 3, "Complete Works of Marx and Engels," Vol 25, p 265.
9. Zhang Chunyin et al: "The Theory of Production Costs Is Meant to Repudiate Planned Economy," JINGJI YANJIU, Vol 10, 1964.
10. Dai Yuanchen: "On the Theory of Production Costs and Average Profit Rates on Capital," JINGJI YANJIU, Vol 9, 1964.
11. Xu Shuqing et al: "Don't Ram Average Profit Production Costs into the Socialist Economy," GUANGMING RIBAO, 12 Oct 1964.
12. The question of the price of agricultural products and comparison of the prices of both agricultural and industrial products is not covered in this article because it involves such complicated problems of industry versus agriculture, ownership by the whole people versus collective ownership, and relations between industrial workers and peasants.
13. "Surplus Value," in "Complete Works of Marx and Engels," Vol 26 (1), p 423.
14. "Outline of Critical Study of Political Economy," (draft), Vol 1, p 112.

15. He Guilin et al: "Production Cost Cannot Be the Basis of Price Under Socialism," JINGJI YANJIU, Vol 4, 1964.
16. Yu Lin: "How to Price All Categories of Products Accurately," JINGJI YANJIU, Vol 5, 1964.
17. Dai Yuanchen: "On the Theory of Production Cost and Average Profit Rate on Capital," JINGJI YANJIU, Vol 9, 1964.

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ECONOMIC PLANNING

INSTITUTE OF TECHNOLOGICAL ECONOMICS TO BE ESTABLISHED

OW170310 Beijing XINHUA in English 0256 GMT 17 Nov 79 OW

[Text] Beijing, November 17 (XINHUA)--China has decided to set up an Institute of Technological Economics, making it the sixth economic research institution under the Chinese Academy of Social Sciences. The others are the institutes of economics; industrial economics; agricultural economics; finance, commerce, commodities and economics, and world economy.

Yu Guangyuan, a noted Chinese economist and vice-minister of the State Scientific and Technological Commission, made this announcement at a current forum on technological economics, being attended by more than 800 technological economists in the Chinese capital.

Professor Yu noted that specialists in the economics of technology in China have done the following in the past year:

--a national conference on technological economics and management was held last November. At that time plans for research in this field were worked out;

--a society to study technological economics was formed in the same month. Important proposals were made on improving government policies on technology;

--mass activities on studying technological economics have been need [as printed] throughout the country and 16 regional research institutions have been set up; and

--a fortnightly "report on technological economics and management modernization" has been published jointly by the Chinese Institute of Technological Economics and the Chinese Institute of Management Modernization and collections of technical literature edited.

The study of technological economics would prompt China to adopt proper technical policies and measures in planning and production and avoid the losses caused by irrational plans, Professor Yu said.

Such research started in China back in the early 1960's, but was later suspended during the Cultural Revolution.

GENERAL ECONOMIC INFORMATION

BRIEFS

ANHUI WORKERS PROMOTION--The Anhui Provincial Revolutionary Committee held a meeting from 16 to 20 November to exchange experience in workers promotion experiment. Yang Weiping, secretary of the provincial CCP committee and vice chairman of the provincial revolutionary committee, addressed the meeting. (Hu Xiangnon), director of the provincial planning committee as well as the provincial labor bureau, explained some policies in this regard. Since last September, the workers promotion experiment has been carried out in 147 units in industry, communications, capital construction, education, public health, agriculture, commerce and government organs. Twelve units have completed the experiment. [Hefei Anhui Provincial Service in Mandarin 1100 GMT 28 Nov 79 OW]

SHANXI TROUBLESHOOTERS--Taiyuan, Nov 12--Technical coordination teams in Taiyuan, capital of Shanxi Province and a major industrial city, help enterprises and factories improve outdated equipment, popularize new technology and tackle difficult technological problems. A group of over 600 veteran and model workers and technicians was organized by the municipal workers' union in 1977. They were divided into teams according to specialities. In cooperation with the Taiyuan Engineering Institute and the Shanxi Coal Research Institute, a team devised a new furnace with fluid graphite particles, which has been put into mass production at the No 1 radio factory. Another team raised boiler efficiency and fume control capacity by installing water filters and hydraulic scrubbers. This has reduced coal consumption with a resulting saving of 150,000 tons of coal since the beginning of this year. [OW140535 Beijing XINHUA in English 0716 GMT 12 Nov 79 OW]

CSO: 4020

FINANCE AND BANKING

IMPORTANCE OF BANKS IN SOCIALIST SYSTEM STRESSED

Beijing JINGJI YANJIU in Chinese No 1, 20 Jan 79 pp 29-35

[Article by Liu Guangdi [0491 0342 4574]: "The New Role of Banks in the New Period"]

[Text] Banks have existed for several hundred years. Now, we must study very carefully what roles socialist banks should play under our socialist system, especially during the current stage of speedy realization of the Four Modernizations. But very little has been written on the subject by our economists. In his article: "Act According to Economic Law To Speed up the Four Modernizations," Comrade Hu Chiaomu pointed out especially the need "to strengthen the role of banks." I know many comrades do not see why Comrade Hu Chiaomu places so much emphasis on the functions of banks. Even those comrades with years of experience in banking doubt whether banks can do that much. I believe this is a very important question. To leave it unanswered will no doubt retard the realization of the Four Modernizations. This article is based on what I have learned about banking. Comments and criticisms by economists and those engaged in banking and finance are welcome.

I

Is it necessary for the proletariat to establish its own banks after it has seized political power? What kind of banks does the proletariat need? These questions, which bear heavily on the success of socialist construction, are subjects of lengthy discussions in Marxist classics, in which we might find satisfactory answers.

Both Marx and Engels pointed out that upon seizure of political power, the proletariat "must work through state banks which have exclusive control over state assets in order to vest the authority over credit in the hands of the state."¹ Marx emphasized: "There is no doubt that the credit system has a powerful leverage during the transition from the capitalist form of production to production by the joint labor force."² Using this analysis, Marx believed that to gain financial monopoly and keep the credit system under state control for the protection of the national economy, the proletariat must establish its own banks after seizing political power.

In his exposition on the functions of capitalist banks under the new historical conditions, Lenin pointed out: "As banking has developed and come under the control of a few organizations, the banks have become omnipotent monopolists rather than intermediaries."³ He believed that during the stage of imperialism, the role of the capitalist banks as public bookkeepers and dispensers of the means of production is so vital that they "become the center of modern economic activities and the nerve center of the capitalist national economy."⁴

After carefully studying the capitalist banks, Lenin was convinced that their development laid a material foundation for socialist banks. That is, they provided socialism with an organization capable of adjusting, computing, and supervising the production and distribution of products. Consequently, Lenin pointed out that in its struggle to seize political power, the proletariat must destroy all the capitalist apparatus of oppression, including the standing army, police, and officials. But "the proletariat must not and need not destroy the banks. It must free the banks from capitalist control, cut off all traces of capitalist influence, bring them under the control of the proletarian soviet, and turn them into even more extensive and all-embracing organizations of the whole people. It is entirely possible to take advantage of the achievements of the big capitalists (generally speaking, the proletarian revolution had to take advantage of these achievements to reach its goals)."⁵ Lenin's statements are worth careful consideration. He rated the socialist banks, which are free of the dregs of capitalist banking, "the most exquisite organizations."⁶ He also reiterated once again that the proletariat must establish its own big banks. "Socialism can never be realized without big banks."⁷ Such big banks, according to Lenin, are the central accounting offices under socialism, the computation centers of nationwide production and distribution of products and the regulatory organs of the national economic life. Lenin's teachings are still applicable to our effort to strengthen the banks for the Four Modernizations.

Under Stalin's leadership, the Soviet Union reorganized its credit system in early 1930's, making banks the national clearinghouses of cash flow, credit, and account transfers. The reorganization also stipulated that investments in capital construction would be provided by the national treasury without charge. The working capital of an enterprise was split into two parts. One, provided by the national treasury without charge, was considered its liquid assets. The other, a seasonal or one-time operating fund, was to be met by bank loans. These reforms were necessary at that time.

When Comrade Mao Zedong proposed to nationalize the banks during the second internal revolutionary war, the various revolutionary bases had established the people's own banks. A national bank was set up after the founding of the Central Workers and Peasants Democratic Government. Comrade Mao Zedong pointed out in 1934 that to bring into full play the functions of soviet banking, the bank must issue enough paper currency to meet market demand,

absorb deposits by the masses, extend loans to profitable production enterprises, regulate the finance and money supply of the entire soviet region, and lead the cooperatives of the masses to struggle against the speculative merchants. That marked the beginning of our socialist banking.

As we reorganized the old banks after liberation and studied the banking experience of the Soviet Union, we established the people's national banking system. Right after the founding of the People's Republic, we depended heavily on the banks to unify the financial and economic work of the state, balance revenue and expenditure, and allocate material supplies and cash flow to stabilize the money market and commodity prices. Later, during the socialist transformation of agriculture, handicraft industries, and capitalist industry and commerce, the banks, while observing the law of dialectical relations between circulation and production, helped make capitalist industry and commerce accept the transformation. They also helped promote the speedy recovery and development of the national economy during the First Five-Year Plan and the three-year economic setback. Practice attests that the services of the socialist banks should be strengthened instead of cut back.

II

The current banking operations in our country are far from being adequate to meet the demand of the Four Modernizations, and are much behind the standards of banking set forth in the works of Marx and Lenin. I believe there are four basic reasons:

First, the vitality of the banks has dissipated in an economy run by administrative decrees.

The experience of our economic construction demonstrates that whenever we observe the socialist objective economic laws and use economic means to run the economy and let the banks play their accounting and regulatory roles in the national economy, our production develops and everything works smoothly. However, the moment we depart from objective economic laws, overlook the role of the banks, and rely on administrative decrees to run the economy, our production slows down and even declines, and we run into difficulties.

Our system of financial and economic management after liberation was mostly copied from the Soviet Union. The Soviet system relies mainly on administrative decrees to run the economy. This tight centralized control leaves practically no room for the localities, enterprises, and masses to develop activism. Although we modified the Soviet system to suit our actual conditions, extensive use of administrative decrees as a vehicle of management still remained, and this has cut back the role of the banks in economic management. Consequently, to make full use of the banks, the entire system of economic management must be overhauled. The use of administrative decrees must be cut back to make room for economic management by economic means based on socialist objective economic laws.

Second, there is a lack of experience in the management and operation of large banks.

Socialism in our country was built on the heels of a triumphant revolution in a semicolonial and semifeudalist society where production was backward, industry undeveloped, and banking extremely limited, backward, and obsolete. The banks were far from being the nationwide, all-embracing capitalist banks, the bookkeepers of the people, that Lenin had described. The old Chinese banks were by no means a firm material and operational foundation for new Chinese banks.

We inherited such a mess after the liberation. We established a system of state banks as we confiscated the bureaucratic capitalist banks and overhauled numerous private banks and money brokerages. Without what Lenin described as "the achievements of the big capitalists to rely upon," our state banks had to start from scratch. Managed much more frequently by administrative decrees than economic means, our national economy and banking have had many ups and downs. Since we have not acquired the know-how to manage large-scale socialized production, our banks, such as they are, just do not measure up to the requirements of the Four Modernizations.

Third, the small farm economy and feudalist bureaucratic concept of management have weakened the role of banks.

As our banks are founded on the ruins of semifeudalist and semicolonial society, the small farm economy and feudalist bureaucratic principles and methods of management have affected banking operations. For instance, bank cadres have often been drafted to tackle so-called "crucial tasks" unrelated to banking. Banking operations were sometimes suspended in certain localities in order to complete a particular rush job. Bank personnel and organizations were slashed at will. Nationwide credit programs were scrapped "at the whim" of local higher officials. Banks were asked to chip in to meet any local one-time cash requirement. All these things indicate that our superstructure is not fit to handle banking reform responsibilities.

Fourth, the most severe blow to banking came from the interference and disruptions by Lin Biao and the "gang of four."

Lin Biao and the "gang of four" did the most damage to banking. They labeled "the exchange of currencies the hotbed of capitalism and the capitalist class," and alleged that the banks are "dictatorial, restrictive, obstructive, and repressive." Attempting to destroy the banks, they advanced the theory that "big savings and deposits represent capitalism" and that "interest is exploitation." They were violently opposed to letting the bank help the enterprises with their economic accounting, claiming that "economic accounting downgrades integrity." Advocating "cancellation" of farm debts, they attacked the banks' credit program and branded the policy of punctual payment

of bank loans the "extortionary pressure of loan sharks." Having dealt a deadly blow to this "exquisite organization," they tried to infiltrate the banks and use them as tools for usurping party and government power.

Owing to the facts given above, the role of the banks has declined in recent years.

III

In view of the banking operations since the founding of the People's Republic and the requirements of objective economic laws, how can the banks play their role more effectively in speeding up the Four Modernizations? Personally, I believe the following areas are worth careful exploration.

First, make full use of banking mechanisms for the distribution of capital.

Treasury appropriations and bank loans used to be the two vehicles for the distribution of capital for construction in our country. Investments in capital construction were provided by the state treasury according to the sources of revenue and the purpose of the investments. Operating funds were met partly by treasury appropriations and partly by bank loans, both of which were balanced comprehensively but managed separately by different organizations.

The demarcation lines of separate managements are: funds allotted without charge are handled by the treasury; those with a charge by the banks; those for long-term use are handled by the treasury; those for short-term use by the banks. Looking at the arrangement now, we find treasury appropriations allotted without charge are an administrative measure not amenable to economic accounting and investment efficiency control. Certain treasury appropriations allotted over all these years have not been productive, even though they represent huge sums of money. State financial assistance to agriculture is a good example. Of course treasury appropriations are advantageous under certain conditions at a particular time. For instance, right after liberation, when capital for construction was extremely limited and economic developments in various localities were unbalanced, the state found it necessary to ask all enterprises to surrender their earnings to the treasury. This limited amount of capital which the Ministry of Finance used to assist certain economic backward localities was a badly needed first step to remedy the extremely unreasonable disparity of social productivity. However, since these treasury grants were allotted free of charge, and often without scientific justification or follow-up investment efficiency control, the advantages of the system were overshadowed by the abuses which developed subsequent to the grants. This is what actually happened. When quotas were assigned, every locality and every enterprise would strive to get higher quotas, more investments, more material supplies, more foreign exchange and, in a word, the more money the better. Once the battle is over, nobody

really cares how the money is spent or how productive the investments are. Understaffed, the Ministry of Finance just cannot inspect and supervise such an extensive array of construction projects. The banks have enough personnel and are in contact with the enterprises, but do not have the authority to inspect and supervise them. As for the authorization of fixed amounts of operating funds, there are no definite criteria. An enterprise which receives a liberal grant and does not need bank loans often refuses to submit financial reports to the banks. If it did not receive sufficient operating funds, it would ask the banks for additional loans. This would disrupt the credit programs of the banks and cause contradictions between separate managements by the treasury on the one hand and the banks on the other. If it were poorly managed, unable to surrender any earnings to the treasury, and delinquent in bank loan payments, it would have to scrape what it has to make ends meet, upsetting not only separate management but also comprehensive balancing.

Enterprises in capitalist countries are privately owned and financed by capitalists who depend primarily on bank loans if they do not have enough cash. They can also raise capital by offering shares of stock for sale to the general public. There is no such a thing as "treasury appropriations." Marx said: "The banking system has built for society at large a framework of public bookkeeping and distribution of the means of production, but only a framework."⁸ In expounding Marx's views, Lenin pointed out that in a capitalist society, "'Public distribution of the means of production,' viewed as a framework, has emerged from modern banking.....In substance, however, it is not 'public' but private. It is for the interests of the big capitalists (primarily the biggest monopolist capitalists)."⁹ Only under socialism can the banks serve as the vehicles both in form and substance for public bookkeeping and distribution of the means of production in the interest of the working people.

To enable the banks to promote and supervise all enterprises, operating funds should be met entirely by bank loans. In the past the banks extended full credit only to wholesalers and exporters. From now on, banks should extend full credit to all industrial and commercial enterprises, allowing loans to cover all their operating funds. There are some who allege that banks have tried to extend full credit to all enterprises, but that the result has not been rewarding. Of course, banking reform must be accompanied by reforms in the system of management of the national economy. Banking reforms alone would not reap the benefits of the system of full credit loans. The most effective way to make the full credit system work well is to tie the remuneration of the workers of an enterprise to the success and failure of its management and the achievement of the collective labor force.

As we speed up the Four Modernizations, bank loans should cover not only all the operating funds required by the enterprises but also funds for capital construction and long-term capital outlays. Why? Because bank credit and loans are unique. First of all, bank loans must be paid back

with interest when they become due. The bank can invoke creditor's sanctions against any delinquent debtor. Secondly, although a bank loan is couched in terms of money, it is actually tied to distribution of material supplies. When a bank distributes funds in the form of a loan, it must observe the rule of tying the movement of funds to the movement of material resources in order to maintain an equilibrium between the two.

When a bank loan is secured by material resources, the funds made available must be spent for a specific purpose and paid back once that objective is achieved. Moreover, requiring the banks to extend loans on the strength of definite plans reinforces the safe issue of paper currency by the state. Socialist objective economic laws call for maximum economic results with a minimum amount of labor. This means that every enterprise must achieve maximum results with a minimum amount of funds. To distribute public funds in the form of bank loans is the most effective way to economize the use of funds as required by socialist objective economic laws. Distribution of funds through the banks encourages the enterprises to plan more carefully, to strengthen their management, and to seek economic effectiveness. As far as the banks are concerned, unified distribution of both long-term and short term-loans enables the banks to help the enterprises make better use of funds and material supplies and to invoke economic sanctions to compel any faltering enterprise to make improvements. Released from the task of handling the distribution of funds, the state financial agencies would have more time to help the enterprises to improve their operations and management to earn more profit for the state.

Distribution of funds through the banks affects not only the relations between banking and state finance but also the relations between the higher and lower levels of banks. The existing contradictions between the higher and lower levels of banks are due to the fact that policies concerning credit and cash flow of the whole country are under the exclusive control of the central bank authority, while party and political work for the banks as well as the placement of bank cadres are under the exclusive control of the local authorities. The local party and government leaderships are required by state regulations to carry out the credit program of the central bank. But there have been contradictions in practice. Taking the money of the bank as something belonging to the central government, some local leaderships are not concerned whether the credit program is fully implemented or not. However, since the bank cadres are under their control, they feel confident that they can go to the local banks for money needed in the locality. Realizing that they are under the direct control of the local leadership, the local bank cadres dare not reject local requests for money. As a result, the uniform programs of the banks are jeopardized.

To generate more activism by all concerned, the local party and government organs should be given more power over bank credit so as to make the localities more concerned about the source and use of bank funds as a matter of their own interests, and more willing to use the banks as an economic organization to speed up production.

If all the operating funds required by the enterprises and capital construction appropriations are to be covered by bank loans, the procedure for handling funds required by local enterprises should also be modified. (provincial or municipal) The local authorities should have the exclusive authority to use bank loans to cover funds (both operating and capital construction) required by any local enterprise which is integrated with the overall state plan. This procedure is recommended for the following reasons: (1) When local enterprises are integrated with the overall state plan, both central and local enterprises can develop more systematically and avoid contradictions in the use of raw materials and funds. (2) When local authorities are given greater authority over bank funds, they are likely to be more concerned about the business of the banks under their supervision. (3) The profit earned by a local bank is to be distributed jointly by the central bank, the local authority, and the local bank concerned. Since the economic interests of all these are involved, they are bound to be concerned about the use of bank funds and its accounting system.

The rate of bank interest is another question related to loans and credit. Interest charged by socialist banks is an important economic lever which the state uses to serve socialism. It helps mobilize and amass temporarily idle capital to develop socialist production and the circulation of commodities, and encourages the enterprises to tighten their economic accounting, speed up the circulation of capital, and use their capital more productively. At the same time, it forces the banks to tighten their internal accounting and watch their own expenditures. Thus, interest, an economic lever, is so important that it should be actively applied for the benefit of the Four Modernizations.

In the past there was a popular belief that the continuous lowering of interest rate since the 1950's was a sign of economic growth and prosperity as well as a damper on "the legal claims of the capitalists" in credit relations. This is an erroneous concept. Since interest is an important economic lever, it is bound to fluctuate and cannot remain stationary. Nor can it keep dropping continuously. From now on, we must follow a policy of differential interest rates which can be adjusted to promote the production and circulation of commodities. In a word, our current uniform rate of interest is too low to attract idle capital and encourage more stringent economic accounting. It must be changed.

Second, let the banks serve as a link in expanding production.

At the All-China Joint Finance and Trade Conference, Comrade Li Xiannian pointed out that finance, trade, and banking, figuratively speaking, are comparable to the circulation system of the human body. Man cannot live without blood circulation. Likewise, our socialist economy also depends on finance, trade, and banking as well as the circulation of commodities and the distribution of capital. The banks are the circulatory system, and capital is the blood. The human body depends on continuous circulation of

blood for good health; so does the development of the national economy [depend] on the circulation of capital. Being the hub of the movement of capital throughout the country, the banks can help speed up the development of production through their control over the flow of capital.

All transactions in bank loans and credit loans and credit are based on contracts which govern all banking operations. Henceforth the relations between enterprises, between production, supply, and marketing units, between general and specialized corporations, between general corporations, between specialized corporations, between local companies, and between all the corporations and the grassroots-level enterprises must be based on contracts. The working of the contract system depends largely on the banks, which can effectively supervise the performance of contracts through the movement of capital because they are closely related to all the enterprises and units. For instance, a bank can easily coordinate the movement of material supplies and capital through its collection, payment, and settlement operations, and also can supervise contractual performance by both sellers and buyers. A bank can also use its extensive organization and contacts to help any enterprise develop its potential or work out innovations and changes to make better use of capital and material resources.

It is clear that if the banks can play the role of a link in large-scale reproduction, they will provide uninterrupted production and circulation of commodities, leading to faster turnover and more economical use of capital, and speed up the Four Modernizations.

Third, let the banks play the pivotal role in foreign exchange.

To speed up the Four Modernizations, our country has been working actively to import advanced technology and equipment from foreign countries, make use of foreign capital, and enter the international market on a wide front. Many domestic enterprises will soon take part in import and export trade, and foreign trade no doubt will expand tremendously. Noncommercial foreign exchange, such as overseas Chinese remittances and investment, will increase too. Such being the case, the banks are bound to play a vital role in the management of foreign exchange. The Japanese economy "got off the ground" by relying on banks. One unique feature of Japanese enterprises is that they begin with only a limited amount of capital, while the rest is covered by bank loans. Since 1960's the Japanese banking and insurance industries have been instrumental in handling international payments and acquisition of foreign exchange and domestic capital to help the Japanese enterprises import advanced technology and equipment, open up international markets, establish international banking connections, and use foreign capital to speed up domestic economic development.

To meet the requirements of our entry into the international market, our banks must serve not only as domestic financing centers but also as the hub of foreign exchange deposits, loans, and settlements in our economic relations with foreign countries. The banks must attract foreign exchange deposits to support state construction. They must encourage overseas Chinese remittances and investments to boost foreign exchange reserves, and also use overseas Chinese remittances and export loans to expand exports to provide adequate foreign exchange for the state.

In response to our expanding banking operations abroad, banks will have to expand and increase the number of branches overseas. They should build financial ties with foreign banks, promote mutual banking activities, and strengthen economic studies and investigations so as to pave the way for our entry into the international market.

Fourth, maximize the regulatory functions of the banks over the circulation of capital.

The issuance and withdrawal of currency will increase along with the progress of the Four Modernizations. The amount of currency in circulation must be regulated so as to keep pace with the circulation of commodities in order to stabilize commodity prices, ensure market prosperity, and strengthen the position of the people's currency. The law of currency circulation and value must be carefully studied and observed in actual operations. The banks must cooperate with the trade, finance, and other departments to maintain an equilibrium between social purchase power and the supply of commodities. Revenue and expenditures, as well as loans and repayments, must be well balanced.

The banks must use all available economic means and procedures convenient for the masses to mobilize idle capital and observe the rules governing the management and use of cash. All covert currency circulation and unauthorized sale of foreign currency, gold, and silver which disrupts the money market must be strictly banned.

Fifth, maximize the function of the banks as the overseer and barometer of social economic life.

As stated above, by demanding strict performance of contracts, the banks can supervise the enterprises during the expansion of production. But this is only one aspect of their supervision. The books kept by the banks are the true representation of every sector of the national economy, including the economic activities of each link, the general development of the national economy and class struggles in the economy. So, "only the banks know where, when, and how millions and even billions of rubles flow."¹⁰ If the banks investigate and study comprehensively the first-hand information they have available, they will be able to spot problems and play an effective supervisory role in many areas. For instance, working through the banks, the state can watch over and impose penalties on speculative, corrupt, and embezzlement operations which violate the state's economic and financial regulations.

Marx pointed out: "The credit position of both the state and the individual is the barometer of a strong revolutionary economic development."¹¹ As the barometer of the development of the national economy, the banks have the authority and obligation to keep the appropriate government authorities informed of actual development, offer counsel to the state, and promote the development of the national economy.

In view of what is stated above, the position of the banks must be strengthened to speed up the Four Modernizations. The reorganization of the banking system should keep pace with the reorganization of the administration of the entire economy. Otherwise, we would not be able to achieve the anticipated results. To maximize this useful role, the banks should enjoy greater autonomy and broader authority to extend loans, making them play the role of public book-keeper and regulator of the economic life of the whole country. To enable the banks to play their role more effectively, all banks (the Bank of Construction, Bank of Agriculture, Bank of China, etc.) should be placed under the unified leadership of the People's Bank of China. The banks must also strengthen their own management and system of accounting, and reorganize the bank cadres administration. All banks should operate according to objective socialist economic laws, blending together politics and economics to demonstrate the usefulness of this "exquisite organization" in this new era.

FOOTNOTES

1. "Communist Manifesto," in "Selected Works of Marx and Engels," Vol 1, p 272.
2. "Das Kapital," Vol 3, "Complete Works of Marx and Engels," Vol 25, p 686.
3. "Imperialism--the Highest Stage of Capitalism," in Selected Works of Lenin," Vol 2, p 753.
4. "What Is the Way Out of the Crisis?" in "Selected Works of Lenin," Vol 3, p 136.
5. "Can the Bolsheviks Maintain the State Political Power?" in "Selected Works of Lenin," Vol 26, p 87.
6. Ibid.
7. Ibid.
8. "Das Kapital," Vol 3, "Selected Works of Marx and Engels," Vol 25, p 686.

9. "Imperialism--the Highest Stage of Capitalism," in "Selected Works of Lenin," Vol 2, p 759
10. "What Is the Way Out of the Crisis?" in "Selected Works of Lenin," Vol 3, p 137.
11. "Class Struggles in France, 1848-1850," in "Selected Works of Marx and Engels," Vol 1, p 405.

CSO: 1000

FUELS AND POWER

BRIEFS

XIZANG POWER STATION--Beijing, Nov 15--A new 4,000-kilowatt hydroelectric power station is under construction in the Diqing Tibetan Autonomous Prefecture in southwest China. The biggest so far in this remote area inhabited by people of the Tibetan Han, and other nationalities, it will supplement the more than 100 small hydroelectric power stations already completed there. Such stations have a combined capacity of 12,000 kilowatts. Ninety-three percent of the people's communes in this area are now supplied with electricity. Some 100 state- and collectively-owned enterprises, including timber felling, agricultural machinery and food processing workshops, are today powered by electricity. Electric lighting replaced pine torches in peasants homes. The 4,000-kilowatt station and other bigger ones are financed by the government while the smaller ones are undertaken by communes and brigades with government aid. [Text] [OW160339 Beijing XINHUA in English 1200 GMT 15 Nov 79 OW]

SHANGHAI INDUSTRIAL TECHNIQUE--Shanghai, 28 Nov--A new industrial technique of using ultra-infrared rays to achieve a penetrating heating effect has been widely used at more than 1,000 industrial units in Shanghai. To save electricity, the new technique was introduced in the baking and dehydration process, and it is capable of saving up to 30 percent of electric power. An estimate shows that Shanghai's industrial departments conserved 130 million kilowatt-hours of electricity in the first 10 months of 1979 through the use of this new industrial technique. [Beijing XINHUA Domestic Service in Chinese 0247 GMT 28 Nov 79 OW]

CSO: 4006

LIGHT INDUSTRY

BRIEFS

ANHUI LIGHT INDUSTRY--The Anhui provincial light industrial products sales exhibition, which lasted for 7 days, closed in Bengbu on 26 November. More than 9,400 varieties of commodities were displayed and on sale. Some 401 million yuan of deals were concluded. Su Yu, secretary of the provincial CCP committee; and Hu Tan and Meng Jiaqin, vice chairmen of the provincial revolutionary committee, attended the closing ceremony. Hu Tan spoke on how to invigorate the production and marketing of light industrial products. Meng Jiaqin made a summing up report. [OW032035 Hefei Anhui Provincial Service in Mandarin 1100 GMT 28 Nov 79 OW]

ZHEJIANG CADRE PROMOTIONS--Leading party group of the Zhejiang Provincial First Light Industry Bureau boldly promotes middle age and young cadres to leading posts. Since June 1978, it has promoted 29 cadres between the age of 40 and 50 to deputy department director or higher posts, accounting for 60 percent of the total number of cadres in the leading bodies. These promoted cadres support the party line, work hard and have professional competency. [OW291445 Hangzhou Zhejiang Provincial Service in Mandarin 0400 GMT 26 Nov 79 OW]

CSO: 4006

DOMESTIC TRADE

TAIYUAN HOLDS RALLY ON CHECKING ON COMMODITY PRICES

HK191114 Taiyuan Shanxi Provincial Service in Mandarin 1100 GMT 9 Nov 79 HK

[Summary from poor reception] The Taiyuan Municipal Revolutionary Committee held a mobilization rally of the municipal finance and trade system on the morning of 8 November to check on commodity prices. Over 3,000 people from the system attended. During the rally, the municipal revolutionary committee seriously criticized and handled the clothes shop of the Taiyuan General Merchandise Company which arbitrarily raised the prices of high-grade clothes, the (Nanjing) Sales Department of the Taiyuan Vegetable Company which arbitrarily raised the prices of vegetables and two Taiyuan restaurants which arbitrarily raised their prices. Five salesmen of the clothes shop who were responsible for arbitrarily raised prices were disqualified from receiving the November bonuses. Two of the five salesmen who committed serious offenses were fined 10 yuan. "The revolutionary committee has decided that that vegetable sales department's leadership group must conscientiously write a self-criticism and return the over-charge to the units which purchased vegetables. Moreover, all the staff and workers of the sales department will not be given their November bonuses." The municipal revolutionary committee has ordered the heads of the two restaurants to write a self-criticism and decided to deduct 20 percent of their pay during their self-criticism period. The second restaurant was also fined 500 yuan.

"During the rally, a responsible comrade of the municipal revolutionary committee spoke, calling on all trades and professions of the municipal finance and trade system to conscientiously implement the circular issued by the State Council on 5 November and mobilize all forces to conduct a widespread inspection of commodity prices on the market." He called for tangibly rectifying all unauthorized price rises. He said that it is absolutely forbidden to arbitrarily increase the consumer's burdens.

CSO: 4006

DOMESTIC TRADE

BRIEFS

TIANJIN PRICE SURVEY TEAM--Tianjin Municipality formed a price survey team on 14 November. This team, divided into 17 sub-teams with Yan Dakai, vice chairman of the municipal revolutionary committee as its head, is scheduled to conduct a citywide price survey starting 16 November. [SK151204 Tianjin Municipal Service in Mandarin 2330 GMT 14 Nov 79 SK]

XIZANG SALES INCREASE--Beijing, Nov 15--The people of Tibetan, Yi, Hui and other nationalities in the Garze Tibetan Autonomous Prefecture bought 12 percent more goods in the first half of this year compared with the same period a year ago and sales are continuing to rise. The prefecture, situated in the eastern part of the Sikang-Tibet Plateau, 3,000 metres above sea level, has a population of 700,000. Last year, the total value of its farm and animal products was 2.3 and 5.3 times greater respectively compared with 1960, the year after feudal serfdom was abolished there. The state has taken measures to ensure fair prices for industrial and agricultural products in this remote area. By selling the same amount of wheat, the peasants there can now buy three times as much salt as twenty years ago. [Text] [Beijing XINHUA in English 1200 GMT 15 Nov 79 OW]

CSO: 4020

FOREIGN TRADE

PRC BANKER ON BANK OF CHINA ROLE IN FOUR MODERNIZATIONS

BK121341 Hong Kong AFP in English 1206 GMT 12 Oct 79 BK

[Excerpts] Singapore, 12 Oct (AFP)--A more realistic and somewhat critical appraisal of trade with and investments in China was voiced today, the last day of the "Trade With China" conference here.

Two major speeches by Mr Tsueno Kawasakiya, general manager, China Department of Mitsui and Co. and Mr Patrick Alexander, executive manager, China Trading Division, Jardine Matheson and Co Ltd, set the keynote for today's discussions, in contrast to the optimistic picture presented by speakers on the opening day yesterday.

On the Chinese side, however, clear guidelines were laid down by Mr Lin Jixin, managing director of the Bank of China, who explained the role his bank would play in China's four modernisations--agriculture, industry, national defence and science and technology.

Speaking earlier, Mr Lin said the Bank of China was now fully geared to play its full part in the four modernisations, in which compensatory trade, deferred payments, cooperative production, joint ventures and loans would all be involved.

He said the bank would provide commercial credits for the import of equipment for compensatory trade, furnish letters of guarantee where foreign banks advance credits to Chinese enterprises or where Chinese enterprises buy the equipment on installment.

He said China, which has so far turned mainly to the Eurodollar market for capital, might start dealing with the Singapore-based Asian dollar market in the days to come.

Apparently referring to questions posed yesterday, Mr Lin said: "Some of our friends are afraid that China's political and economic situation will not be stable and fear that their investments will not be secure."

"Such fears are groundless. After the smashing of the gang of four the whole nation is stable and united and the political and economic situation is also steady."

He also referred to the new investment law and said this gave "legal protection" to foreign capital invested in China. As if anticipating Mr Kawasaki's criticism, Mr Lin said: "We will also frame other laws to safeguard the rightful interests of foreign countries participating in the other fields of economic cooperation."

CSO: 4020

FOREIGN TRADE

'XINHUA' REPORTS QUESTIONS, ANSWERS AT HUA PRESS MEETING

HK090027 Hong Kong SOUTH CHINA MORNING POST in English 9 Sep 79 p 2 HK

[Editorial: "Reassurance From Chairman Hua"]

[Text] The comments by Chairman Hua Guofeng in Peking on the future of Hong Kong arouse interest less for what he said than for the confirmation of statements made by the senior Vice-Premier, Mr Deng Xiaoping, to the governor, Sir Murray MacLehose, during his visit to China earlier this year.

And while they fall short of a specific undertaking they confirm that the Chinese Government is going about as far as any administration could at this stage to reassure investors and industrialists on Hong Kong's future after the lease runs out in 18 years time.

Clearly while Chairman Hua Guofeng is young enough to be chairman still by the turn of the century he is only being realistic in recognising that he could not and would not want to commit himself or the government of the day to a course of action which it might not be possible to honour at the time.

Much will depend not only on the political attitudes of the Chinese administration at that time but the state of the Chinese economy. Moreover while the difference in living standards between Hong Kong and Guangdong Province may not be a relevant issue the Chinese will not soon forget the difficulties they experienced in absorbing Shanghai in 1949 after more than 100 years as a treaty port with substantial Western ties.

Indeed while assurances to investors and industrialists will be a major consideration for the future, both Britain and the Hong Kong authorities must give even closer attention to the future of the people of this territory, and do their utmost to ensure their well-being.

It is difficult to visualise the kind of future that Hong Kong could have but it deserves to be stressed that if China is looking to using this

territory as a substantial foreign exchange earner after 1997 this will require more than guarantees to individual industrialists and investors. It would require a guarantee of continuity of an independent existence for Hong Kong as a whole.

For a large part of its prosperity derives from the liberal economic environment fostered by the present government, and with it the incentives this provides for business expansion and industrial growth; remove that and the value of this territory to China would diminish considerably, and in time disappear altogether.

Chairman Hua states that he believes the questions relating to Hong Kong, Kowloon and the New Territories can be settled through consultations, but it deserves to be said that with only another 18 years to go it would be in the interests of China and Hong Kong to begin thinking seriously about, if not actually planning for that future now.

Certainly as pragmatic people they would be well advised to prepare unofficial working papers on the kind of political and economic arrangements which might be possible and on which preliminary discussion could be held. In this way new and younger officials coming into the Chinese Government and provincial administrations--particularly since Guangdong and Fujian have been given more scope to develop their economy and foreign trade--could be brought to realise the benefits of an independent Hong Kong to China.

No one here disputes the fact that it remains indissolubly Chinese territory and there are ways and means of changing its status after the lease expires, if that is so desired. But how to achieve it without killing the goose that has laid a very useful basket of golden eggs, is the problem both Britain and China will have to consider in great depth.

CSO: 4020

FOREIGN TRADE

HONG KONG PAPER REPORTS ON GUANGDONG ROAD REGULATIONS

HK151425 Hong Kong SOUTH CHINA MORNING POST in English 15 Nov 79 p 1 HK

[By a staff correspondent]

[Text] Hong Kong and Macao residents may soon be able to drive their own cars into Guangdong Province.

The Guangdong authorities have announced a new set of regulations, which appear to remove restrictions on the entry of Hong Kong and Macao vehicles.

The regulations stipulate that the cars must have third party risk insurance in China as well.

And the Shumchun Branch of the Chinese People's Insurance Corp has undertaken to provide such services.

Drivers will also have to pay a "finance tax" and road servicing charges and the cars will also be required to carry a Guangdong licence.

At present heavy duty lorries, about the only type of vehicles allowed in from Hong Kong and Macao, are not required to take out third party insurance.

The finance tax will be levied at 11 yuan (about HK\$33) per quarter per ton of vehicle weight.

The road servicing charge will be at the rate of 120 yuan (about HK\$360) per ton per quarter.

The revenue from this charge will be used to resurface and repair roads which have been badly worn since lorries from Hong Kong and Macao began to increase.

Some observers believe the new measures are intended to allow more Hong Kong and Macao people to visit Guangdong. However, others feel that it will be a long time before private vehicles are able to cross the border.

The Hong Kong Government is understood not to favor too much freedom of movement because of lack of facilities for proper control.

At present there is only one crossing point at Man Kam To, mainly used by lorries.

If private cars are also allowed to cross into Guangdong, immigration and customs services will have to be greatly expanded.

Observers also doubt that roads in the border area are adequate to meet any sudden increase in vehicles.

Still, they added, the Chinese announcement does pave the way for a freer movement of traffic from here in the future.

CSO: 4020

FOREIGN TRADE

BRIEFS

FUJIAN EXPORT SALES DRIVE--Fuzhou, 28 Nov--Fujian Province has exceeded this year's foreign trade quota 2 months ahead of schedule, thanks to a big sales drive. Its foreign exchange earnings in the first 10 months was 29.56 percent higher than the same period last year. Fujian Province sent trade delegations abroad to test the market, run exhibitions and promote the sale of goods, and it invited over 200 groups of foreign businessmen to visit the province. From January to October this year, Fujian exported 1,500 tons of "taer" oil, good material for making medicine and soap. One of Fujian's main export items is porcelain dinner sets. These were a popular line at China's recent export commodities fair in Guangzhou. [Text] [Beijing XINHUA in English 0217 GMT 28 Nov 79 OW]

PRC TRADE EXHIBITION IN MONROVIA--Monrovia, 21 Nov (XINHUA)--The Chinese economic and trade exhibition closed here today. It is the first such exhibition held by China in Liberia. Since its opening on 9 November, the exhibition with more than 1,500 items on display has attracted about 60,000 visitors in his capital city which has a population of only 200,000. Speaking at a brief closing ceremony, Acting Mayor of Monrovia Lester Parker pointed out that the exhibition was highly successful and through this exhibition the Liberian public has gained a better and clearer understanding of the achievements made by the Chinese people. [OW220220 Beijing XINHUA in English 0140 GMT 22 Nov 79 OW]

BANK OF CHINA IN MANCHESTER--London, 18 Nov (XINHUA)--A big reception was held at the Manchester Forum Hall this afternoon by the branch office of the Bank of China here to mark the inauguration of its subbranch office in Manchester. A total of about 700 British friends and representatives of Chinese residents in Britain attended the reception. In his speech at the reception, Wang Weicai, manager of the branch office of the Bank of China in London, pointed out that the subbranch office in Manchester is founded at a time when the relations of friendship and cooperation between China and Britain have been steadily growing. It will make efforts to promote the growth of economic exchange and trade between the two countries. [Text] [OW190844 Beijing XINHUA in English 0820 GMT 19 Nov 79 OW]

CSO: 4020

TRANSPORTATION

BRIEFS

JILIN HIGHWAY BRIDGE--Longtan bridge on the Songhua Jiang River has recently opened to traffic in Jilin Municipality, Jilin Province. The arch highway bridge is 455 meters long with traffic lanes 18 meters wide. It also has two pedestrian walks with a width of 2.5 meters each. [Beijing XINHUA Domestic Service in Chinese 0115 GMT 10 Nov 79 OW]

SHANGHAI COMMODITY SHIPMENTS--To meet rural market demands, the Shanghai Commercial Storage and Shipping Company has worked closely with supply and transport departments to expedite delivery of commodities urgently needed in the rural areas. Since the beginning of the third quarter, 300,000 tons of manufactured goods for daily use have been shipped to 28 provinces and municipalities. [OW291249 Shanghai City Service in Mandarin 2300 GMT 25 Nov 79 OW]

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